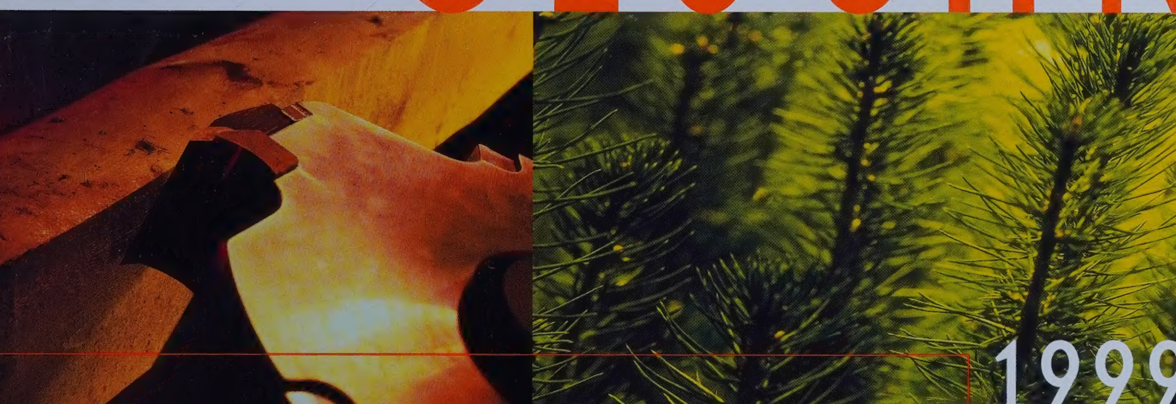
ANNUAL REPORT

SLOCAN



1999

TWENTY-TWO YEARS

AND WE HAVE ONLY JUST BEGUN

Including the Slocan Forest Products Ltd. 1999 Annual Information Form Dated March 7, 2000

FOCUS 250

Focus 250 is what drives our company. From the logger harvesting our timber, to the machine operator manufacturing our products and the salesperson striving to get the best prices in world markets, Focus 250 is our business culture. It begins with a belief that we must remain a profitable company even if lumber selling prices dip to US $250 per thousand board feet. It is this price level which we judge to be the low point in any lumber price cycle and one that we may periodically face during normal business cycles. We constantly do those things, day-in and day-out, that reduce our costs and increase our sales revenue.

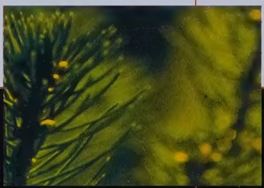


TABLE OF CONTENTS

sful year for Slocan. We achieved
$108.4 million or $2.84 per share
sales reached a new high of $1.1
sales of $936.2 million in 1998.
ions was $236.9 million and net
397.4 million.

SLOCAN
CD-ROM

THIS DISC CONTAINS A BRIEF INTRODUCTION TO SLOCAN, THE 1999 ANNUAL REPORT (INCLUDING THE ANNUAL INFORMATION FORM) AND A DESCRIPTION OF EACH OF OUR OPERATIONS.

- **Place this disc in the center ring of your PC's cd-rom tray.**
- **Program will launch automatically.**
- **Depending on the speed of your processor, the program can take anywhere from a few seconds to several minutes to load.**

Slocan Forest Products Ltd.

FINANCIAL HIGHLIGHTS

sis, Common Share Data and Other Data, and

1998 (1)	1997
$ 936,232	$ 945,931
83,619	114,584
18,841	50,577
(50,709)	2,152
(157,815)	2,111
$ (403,718) (2)	$ 107,693
906,940	1,254,448
14,140 (2)	493,828
51,686	54,028
102,306	260,039
23,157	76,014
(13.25)%	3.16%
(87.11)%	0.95%
0.43:1 (2)	1.36:1
86:14	72:28
(16.86)%	0.22%
38,165,066	34,641,296
38,190,205	38,158,608
$ 2.19	$ 3.31
0.49	1.46
(4.14)	0.06
N/A	0.06
-	0.30
2.68	6.81
1,442,400	1,385,350
164,105	257,591
392,639	330,394
771,055	793,195
181,098	183,572
89,954	82,643

FOCUS 25

Focus 250 is what drives our company. Fro
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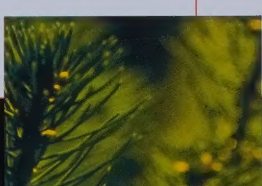


TABL

NOTES TO FINANCIAL HIGHLIGHTS:

(1) Includes unusual write downs in 1998 of $182.6 million ($125.1 million after-tax or $3.28 per share) for impairment of the pulp mill's and the Valemount Division's property, plant and equipment and the write down of deferred foreign exchange loss on settlement of debt.

(2) Long-term debt of $502.2 million was reclassified as current liabilities since Slocan was not in compliance with certain of its term debt's financial ratios pending renegotiation of terms with its lenders. As a result of the completion of these negotiations in August 1999 and after the repayment of US $87.5 million of long-term debt during 1999, $346.4 million of current liabilities has been reclassified as long-term debt for the financial year ended December 31, 1999.

(3) Includes the Company's 49.9% interest in the Finlay operations until its disposition in August 1999.

(4) Includes Slocan's 50% interest in Cantree's plywood operations until the closure of that operation in November 1998.

(5) Includes the Mackenzie Operations from June 23, 1997.

(6) Includes 100% of the Fibreco Pulp Mill's production.

1999 was a very successful year for Slocan. We achieved record net earnings of $108.4 million or $2.84 per share ($2.72 fully diluted). Our sales reached a new high of $1.1 billion compared with sales of $936.2 million in 1998. Cash flow from operations was $236.9 million and net debt was reduced by $397.4 million.

RONALD D. PRICE
Senior Vice-President, Chief Financial Officer and Secretary

FINANCIAL HIGHLIGHTS

(Figures in the Financial Highlights tables are expressed in thousands of dollars except Financial Analysis, Common Share Data and Other Data, and should be read in conjunction with the Notes set out on the left)

SALES AND EARNINGS	1999	1998 (1)	1997
Sales	**$ 1,085,813**	$ 936,232	$ 945,931
EBITDA	**286,750**	83,619	114,584
Cash flow from operations before changes in non-cash working capital items	**236,899**	18,841	50,577
Earnings (loss) before unusual items	**185,079**	(50,709)	2,152
Net earnings (loss)	**108,417**	(157,815)	2,111
FINANCIAL POSITION			
Working capital (deficiency)	**$ 216,108**	$ (403,718) (2)	$ 107,693
Total assets	**788,624**	906,940	1,254,448
Long-term debt			
Recourse	**348,310**	14,140 (2)	493,828
Limited recourse	**-**	51,686	54,028
Shareholders' equity	**208,103**	102,306	260,039
Capital expenditures	**37,792**	23,157	76,014
FINANCIAL ANALYSIS			
Return on capital employed	**21.33%**	(13.25)%	3.16%
Return on common shareholders' equity	**69.85%**	(87.11)%	0.95%
Ratio of current assets to current liabilities	**2.6:1**	0.43:1 (2)	1.36:1
Ratio of net debt to shareholders' equity	**53:47**	86:14	72:28
Net earnings (loss) as a % of sales	**9.98%**	(16.86)%	0.22%
COMMON SHARE DATA			
Common shares outstanding			
Weighted average	**38,212,101**	38,165,066	34,641,296
Year end position	**38,245,143**	38,190,205	38,158,608
Per Share (in dollars)			
EBITDA	**$ 7.50**	$ 2.19	$ 3.31
Cash flow from operations before changes in non-cash working capital items	**6.20**	0.49	1.46
Net earnings (loss) - basic	**2.84**	(4.14)	0.06
- fully diluted	**2.72**	N/A	0.06
Dividends	**0.075**	-	0.30
Shareholders' equity	**5.44**	2.68	6.81
OTHER DATA			
Production:			
Lumber (Mfbm) (3) (5)	**1,380,551**	1,442,400	1,385,350
Plywood (M sq. ft.) 3/8" basis (4)	**175,746**	164,105	257,591
OSB (M sq. ft.) 3/8" basis	**433,256**	392,639	330,394
Wood chips (BDUs)	**770,275**	771,055	793,195
Pulp (ADMts) (6)	**171,185**	181,098	183,572
Newsprint and specialty paper (tonnes)	**52,748**	89,954	82,643

MAP OF OPERATIONS

BRITISH COLUMBIA

Slocan manufactures dimension lumber, specialty lumber products, wood chips, plywood, oriented strand board, value added products and pulp in modern facilities throughout British Columbia.

Lumber
- 10 sawmills
- 1,500,000 M fbm

Oriented Strand Board
- 1 OSB mill
- 510,000 M sq.ft. (1)

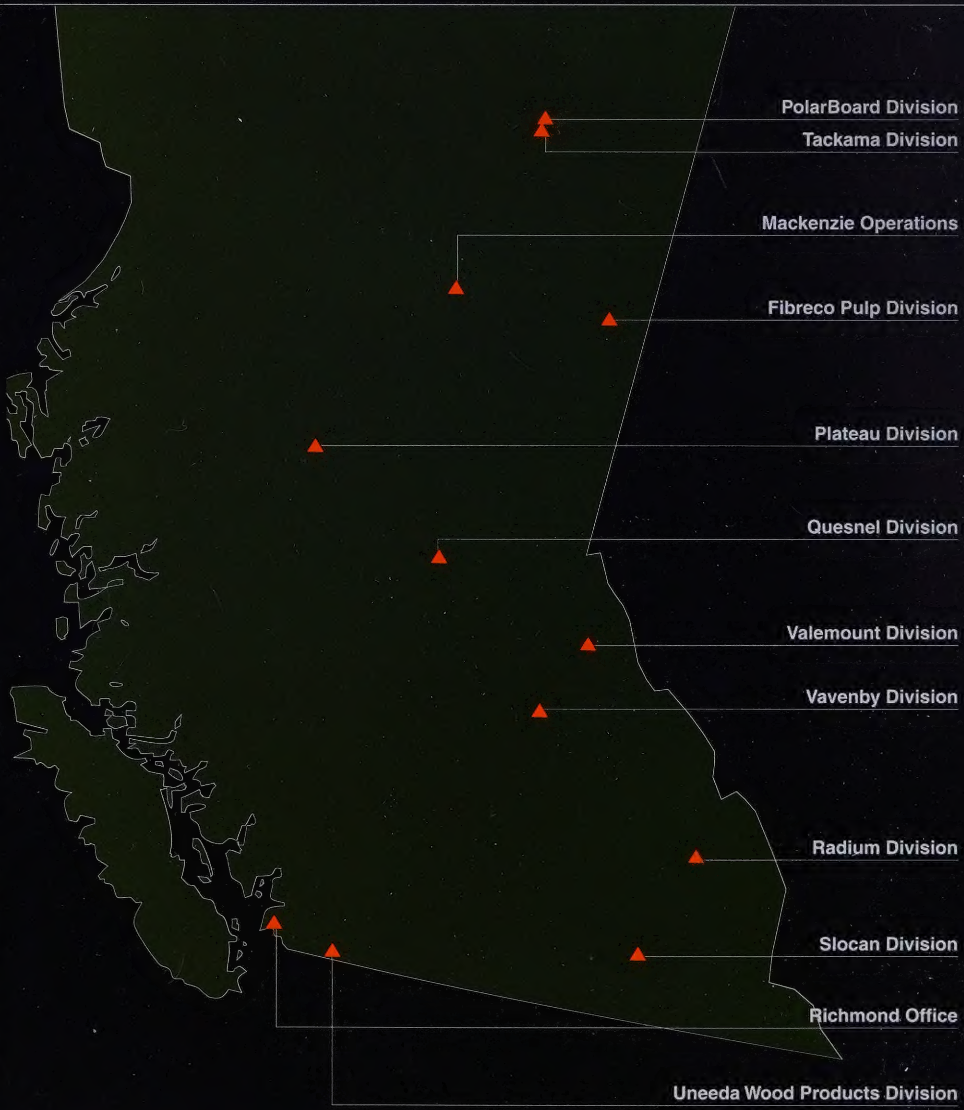
Plywood
- 1 plywood mill
- 300,000 M sq.ft. (1)

CTMP Pulp
- 1 pulp mill
- 240,000 tonnes

Value Added Lumber
- 1 value added mill
- 35,000 M fbm (1)

Wood Chips
- 800,000 BDUs

(1) Upon completion of expansions



SLOCAN PROFILE

British Columbia, Canada

In its short 22 year life, Slocan has grown into one of the largest producers of dimension lumber and wood chips in North America and a significant producer of specialty lumber products, oriented strand board, plywood and CTMP specialty pulp. A strategy of repeated acquisitions in its core strengths has built Slocan to now include ten sawmills, a value added lumber facility, an oriented strand board plant, a plywood plant, and a CTMP pulp mill.

Investments in new technology, development of new products and markets and a focus, day-in and day-out, on cost control has positioned Slocan as a low cost producer in the North American forest industry. As a result, Slocan's annual revenue continued to grow in 1999 reaching a record $1.1 billion.

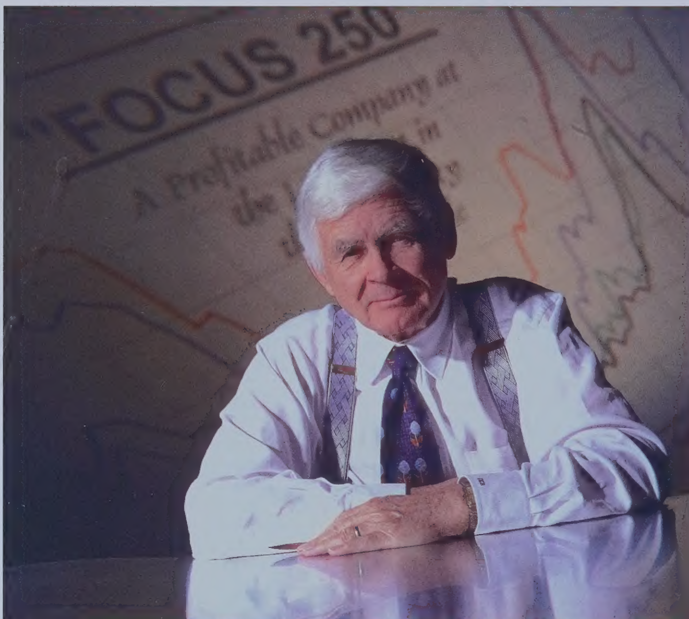
Key to the success of Slocan and its ability to provide customers with high quality products is its abundant timber supply, all located in the interior of British Columbia. Slocan has access to one of the largest supplies of high quality timber of any forest company in the province.

Over 4000 people work for Slocan and its contractors. It is their skills and dedication that have contributed to its growth and success.

The North American market for wood products represents about 1/3 of the world's consumption. It is a market we have been in for over 20 years and it is one we understand well. During 2000, we expect prices in this market for all our lumber products to remain slightly below the strong levels reached in 1999, but still at levels which will generate solid earnings for Slocan. Asian markets for wood products, and particularly Japan, are continuing to improve with the overall economic recovery in these markets.

CHAIRMAN'S REPORT

TO SHAREHOLDERS, EMPLOYEES AND ASSOCIATED COMMUNITIES

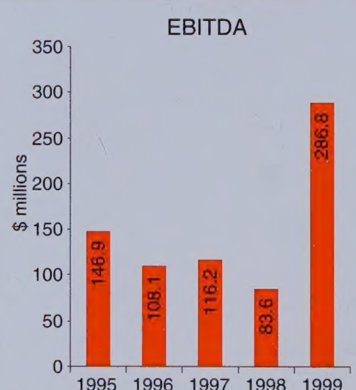


IKE BARBER, *Chairman and Chief Executive Officer*

I am pleased to report to you, our shareholders, our employees and our contractors, as well as the numerous communities in B.C. with which we are associated, on Slocan's results and major achievements in 1999 – and these have been quite remarkable.

I want to start by reminding you of our priorities and principle objectives that form the business culture of our Company.

Since the formation of Slocan in 1978, we have consistently focused on acquiring and maintaining a quality timber base and putting in place state-of-the-art manufacturing facilities to efficiently convert the profile of the timber base for each of these facilities. We then manufacture and market, on a worldwide basis, the best margin products from these facilities. We continue to be very confident that these fundamental components, properly managed over time, will provide the highest value for our shareholders and stability for our employees and communities, as well as helping us to meet our broader social obligations.



EBITDA (Earnings before interest, taxes, depreciation and amortization) is a measure of cash earnings available for debt service and capital reinvestment. The EBITDA generated in 1999 of $286.8 million shows the significant improvement in cash earnings over prior years.

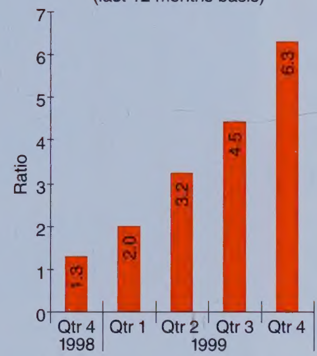
Having said this, sustained low commodity prices for our principal product lines, particularly lumber, through late 1997 and 1998, substantially reduced cash flow from operations and increased our debt-equity ratio to the point where it became a priority for us to correct this situation. For this reason, in 1999, we sold our 49.9% interest in Finlay Forest Industries Inc. This sale not only provided Slocan with $80 million of cash proceeds to apply to debt reduction, it also eliminated an additional $62.7 million of Finlay term debt included in our consolidated balance sheet. In conjunction with this, the commodity prices for our main products, lumber and panel products started to increase in early 1999 and improved through the year.

Because of the strength of the basic fundamentals of Slocan, we were able to take full advantage of these increased prices and apply additional internally generated funds to further strengthen our balance sheet.

As a result, during 1999 we reduced our net debt position by $397.4 million, significantly improving our consolidated net debt to total capitalization ratio by year end to 53%. We went into the year with our operating line at $57.8 million. We ended the year with $117.4 million of cash in the bank and an undrawn credit line of $120 million. Through the year we generated $286.8 million of EBITDA or $7.50 per share. Our operating earnings were $230.6 million or $6.03 per share and our net earnings were $108.4 million or $2.84 per share ($2.72 per share on a fully diluted basis).

These were record achievements for Slocan and are discussed in greater detail in the Management Discussion and Analysis of Financial Results section of this report. While we are very proud of this performance and improvement in our financial position, we are even more proud that the fundamental components of Slocan which we have put together have demonstrated that we are an efficient, low cost producer and we can generate significant cash flow in favourable markets. Our objective going forward is to maintain a strong financial position and achieve an on-going net debt to total capitalization ratio of 50% or less.

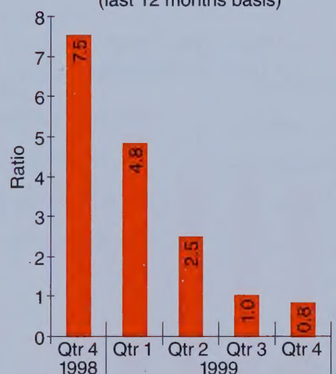
EBITDA: Interest
(last 12 months basis)



EBITDA: interest is an interest coverage ratio and is a measure of Slocan's ability to service its debt obligations.

Those of you who attended our Annual General Meeting in Vancouver on June 25, 1999 heard me say that our experience with low commodity prices in late 1997 and 1998 clearly demonstrated the need for Slocan to ingrain the culture and establish cost controls which will enable Slocan to be profitable at the low point in the commodity price cycle. As a result of this experience, we implemented our "Focus 250" program to achieve this goal. Of the many initiatives that we have implemented over time, Focus 250 will go the furthest in building confidence in Slocan, increasing shareholder value and ensuring stability for our employees and communities. Our President explains more of this in his comments.

Net Debt: EBITDA
(last 12 months basis)



EDITDA for the year was $286.8 million resulting in a Net Debt: EBITDA multiple of 0.8. This favourable multiple is another example of our increasing ability to satisfy our financial obligations and the improved financial strength of Slocan.

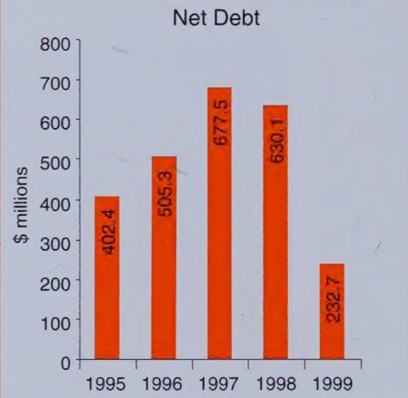
During 1999, we have carefully examined the various opportunities that are available to further strengthen Slocan. We concluded that the best return on investment was to initiate yet another round of technology improvements to our existing manufacturing facilities. We now have under way a capital expenditure program totalling $60 million which will reduce costs and increase production in seven of our facilities. We will be pursuing other short-term payback projects as well as seeking other opportunities for growth.

Although it was determined to be the best option available at the time, the Canada/U.S. Softwood Lumber

Agreement has developed into a controversial agreement. It probably will not be replaced in its present form at its expiry on April 1, 2001. Due to quota constraints on lumber sales to the U.S., Slocan and other Canadian lumber producers implemented production curtailments in 1999. These production curtailments negatively impacted our results during the year. In response, we have initiated a very strong marketing thrust designed to divert more of our production into the Japanese market. We are hopeful that we will be able to operate our sawmills at full capacity in the coming year without curtailments.

With respect to the outlook for the year 2000, overall we expect that our revenues from our various products will be about equal to 1999 revenue levels. However, we expect that there will be somewhat lower lumber revenues, offset by some improvements in other product prices.

Slocan holds a pulpwood agreement in the Fort St. John timber supply area in northern British Columbia which was originally acquired in connection with the Fibreco pulp mill. We have made a proposal to the Ministry of Forests to amend the agreement to allow the construction of a new oriented strand board plant. A public meeting regarding our proposed amendments was held in May 1999 and we expect a favourable conclusion to this process.

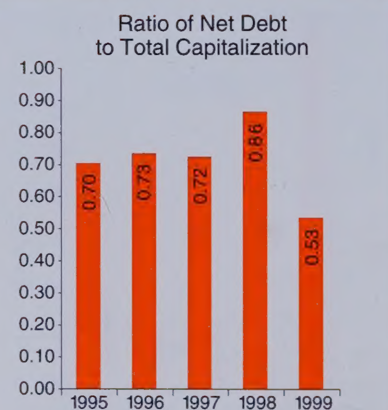


Our net debt was reduced by approximately $397.4 million, significantly reducing our interest payments and giving us a much improved financial position. Net debt comprises short-term and long-term debt net of cash.

This year we have added a new feature to our annual report to provide another way of describing our company and the results we have achieved in 1999. A compact disc containing a brief overview of Slocan, our full annual report and specific information about each of our divisions is included.

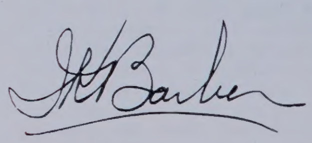
Our Board of Directors has specifically asked me to extend to our entire employee and contractor complement their sincere appreciation for their contribution to the most remarkable financial results achieved in 1999. On behalf of the Executive group, I also want to express our appreciation to our employees and contractors.

I also want to thank the many First Nations groups that we have worked with during the year to expand our business relationships – relationships that have always been based on sound economic principles and mutual respect.



The net debt to total capitalization ratio demonstrates the improvement in the financial strength of Slocan. Total capitalization is comprised of bank indebtedness, other short-term and long-term debt net of cash and shareholders' equity.

Finally, I wish to thank our Directors and Executive for their contributions and support throughout the year.



I. K. Barber
Chairman and Chief Executive Officer

PRESIDENT'S REVIEW OF OPERATIONS

JIM SHEPHERD, *President and Chief Operating Officer*

1999 was a good year for our company. It was a year in which we accomplished many of our objectives and one in which we set the company on a solid footing for the years ahead. My report discusses what we accomplished in a few key areas and the impact this will have on our future success.

SAFETY

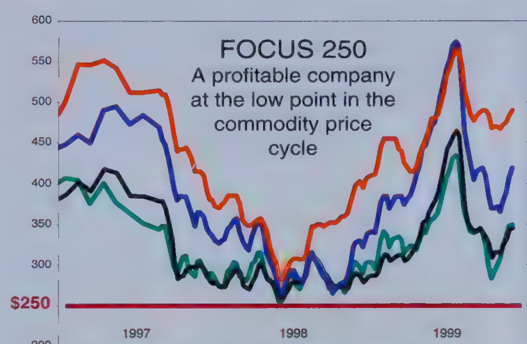
One of my priority focuses is to continue to build safety awareness in all our employees and contractors and to provide a safe working environment. In 1999, we undertook a detailed safety audit of all of our manufacturing facilities. This process formed the basis for initiating a company-wide re-examination of safety in our work place and our safe working procedures. This will continue as an on-going process throughout our operations.

As part of this focus on safety matters, all serious lost time accidents are immediately reported to and investigated by myself and the appropriate Vice-President.

Many of our operations and departments within our operations have achieved remarkable safety records as measured by lost-time accidents. All of the remainder of our operations are on an improving trend. In total, we have had a sharp reduction in our lost time accidents in 1999 compared to 1998 and our goal is to eliminate lost time accidents throughout our operations.

FOCUS 250

Our industry has always been impacted by the effects of shifts in the global economy on the demand for our products. We must anticipate and deal with these cyclical

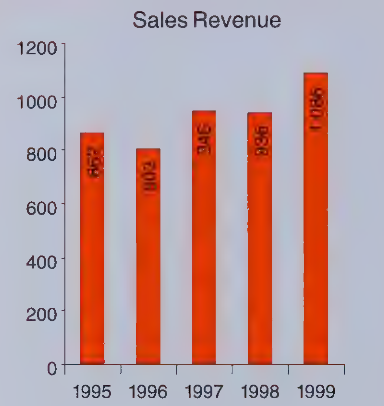


Average prices for our main lumber products over last 3 years (US $/ mfbm)

Slocan's manufacturing costs have been reduced to a level which allows us to remain profitable at lumber price levels as low as US $250 per thousand board feet.

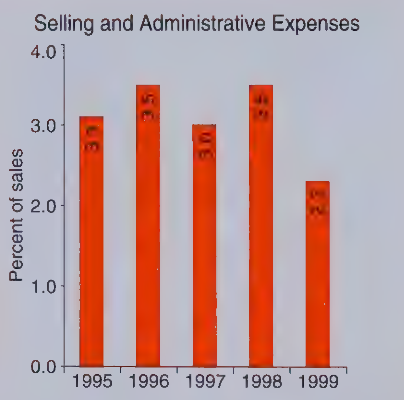
swings in prices for all our products by building in the necessary controls to ensure that we can remain profitable at a lumber selling price of US$250 per thousand board feet, which we judge to be the low point in any lumber price cycle.

In late 1997 and through 1998, in response to a sharp drop in prices for all our products, we implemented a cost reduction program that produced savings and productivity improvements of approximately $100 million in 1998. We continued that effort through 1999 as part of a company-wide strategy called Focus 250.



Sales revenue continues to grow, reaching a record $1.1 billion in 1999 as a result of increased production volumes and improved product prices.

I am pleased to report that the combined efforts of all of us at Slocan together with our contractors has resulted in reducing total manufacturing costs to an average level which we believe will ensure we will continue to be profitable during market down swings.



Selling and administrative expenses are the overhead expenses incurred by our head office and operating divisions in providing management, sales and other support for Slocan's operation. We are comfortable that these expenses are at a level that meet our management objective of being a low cost producer.

SALES

Focus 250 also contributed to the continuation in growth of our sales revenue, reaching a record $1.1 billion in 1999 as a result of increased production and product prices.

Our record sales were accomplished while operating under the restrictions of the softwood lumber agreement with the United States that required us to curtail lumber operations for short periods during the year because of our quota limit. In 2000, as a result of further diversification of our product mix and the development of new export market opportunities, we expect to be able to maintain lumber production at full capacity throughout the year.

CAPITAL PROJECTS

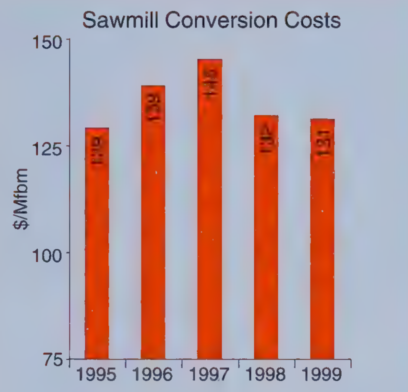
In 1999, we took a close look at all our existing manufacturing facilities. Our purpose — to lower costs and to see how we could expand our production capacity, expand our range of products and increase sales to export markets by making the best use of our existing manufacturing facilities.

In October 1999, the Board of Directors approved a capital expenditure program of approximately $60 million to be spent over the following 16 months on existing manufacturing facilities. The net effect of these expenditures will be a further reduction in per unit costs and an estimated increase in EBITDA of $50 million or $1.31 per share on an annualized basis.

LUMBER

We have 10 sawmills, all located in the interior of the province, with a total production capacity of 1.5 billion board feet of lumber. Our main market for lumber products has always been the United States, with lesser volumes sold in Canada and Japan.

In response to the effect of the restriction, on lumber shipments by the US Softwood Lumber Quota we have initiated a strategy to divert as much lumber as possible into the Japanese market. This strategy includes investments in new technology in a number of our sawmills to increase the production of lumber that meets Japanese lumber grade requirements and the installation of equipment at our Uneeda value added plant to produce laminated beams for house construction in Japan.



Sawmill conversion costs are those costs incurred by all our sawmills to process logs into finished lumber products. Focus 250 is a company wide initiative to maintain total costs at a level which we believe will ensure that the company remains profitable at lumber price levels as low as US $250 per thousand board feet.

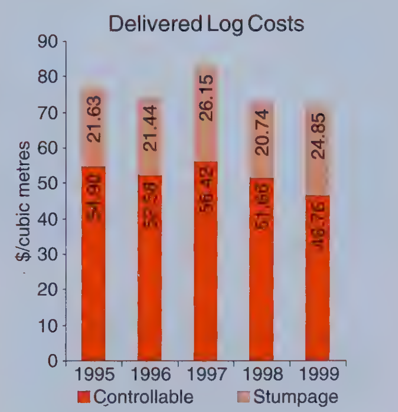
strong demand for our product.

An investment of approximately $15 million in our Tackama plywood mill, combined with a new agreement between Slocan and IWA-Canada which allows a 3 shift, 7 day a week operation, will enable us to increase plywood production by 43% to 300 million square feet. This added capacity, combined with our increased use of low cost aspen timber and the development of new products and markets, is expected to significantly improve the financial performance of the mill.

PANELS

Our PolarBoard oriented strand board plant in Fort Nelson was built to take advantage of the abundant supply of high quality, low cost aspen timber found throughout this northern region of the province. This plant has now been in operation for over 4 years and has successfully reached its current production capacity. Market acceptance of the product in North America and Japan has been high as customers appreciate the high quality board that the plant has been producing from pure aspen.

Part of Slocan's capital expenditure program is an $8.3 million investment in the plant to increase production by 20% to 510 million square feet per year. This will enable us to benefit even further from the



Logs are delivered to our manufacturing facilities from crown land held by Slocan under forest tenures granted to Slocan by the Provincial government, purchases from private landowners and purchases under the Small Business Forest Enterprises Program. A focused effort over the last 2 years by all our operations has led to a significant reduction in controllable log costs.

PULP

Our Fibreco pulp mill was designed to produce 180,000 tonnes per year of softwood pulp. Over the last few years, we have ramped this up to 240,000 tonnes per year. Production, however, has been curtailed since 1995 because of low market demand for softwood pulp.

Recognizing that the world demand for hardwood pulp is expected to continue to grow for the next few years, we are investing $6.4 million in the mill to give it the capability to produce hardwood as well as softwood CTMP pulp so we can access other pulp market areas such as printing and writing paper products.

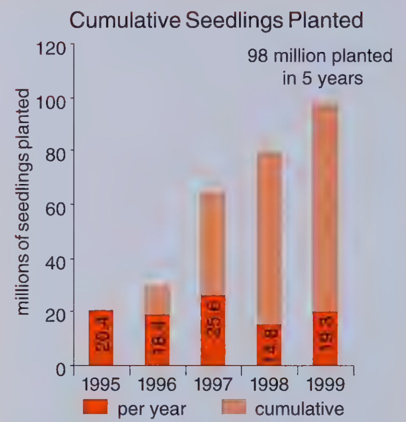
We expect this investment to significantly improve financial

performance of the mill and to keep it operating on a full time basis.

FOREST RESOURCE

The forest resource is the foundation of Slocan. We must maintain, protect and improve it through sound silvicultural management practices that recognize our needs and that are based on sound ecological principles and the expectations of others. Over our 22 years of growth, Slocan has built up one of the largest and highest quality timber bases in the province which contributes very significantly to our profit generating capacity.

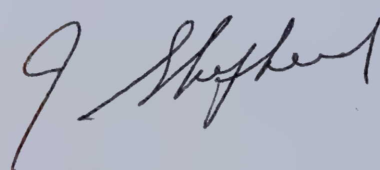
The Forest Practices Code of BC regulates all our forestry activities while our own policies are designed to ensure that we meet or exceed all regulatory requirements. The regular internal reviews of our forestry activities as well as the periodic audits by the Forest Practices Board, an independent third party, are consistently showing that we are meeting the requirements of the Code and adhering to our own policies.



Sustainable forestry practices ensure that a new forest is re-established on all harvested areas. Over the last five years Slocan has planted almost 100 million seedlings.

A major activity in our forest management system is the prompt planting of all of our areas after harvesting. To accomplish this, we plant approximately 20 million seedlings per year and we devote our attention to developing these new plantations into forests of equal or better quality than the original forests.

In 1999, we initiated a process that will lead to the registration of our forestry environmental management system to ISO 14001 standards. This will ensure that our forest management system will meet accepted international standards including third party audits. We have set December 2001 as the target date for full registration to ISO 14001.



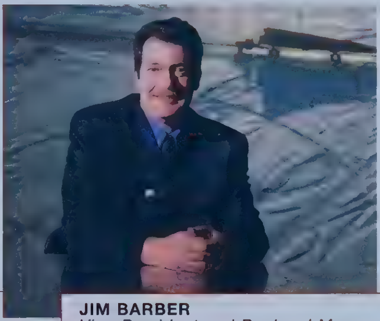
J.A. Shepherd
President and Chief Operating Officer

EXECUTIVES

MIKE MADRIGGA
Senior Vice-President, Corporate Development

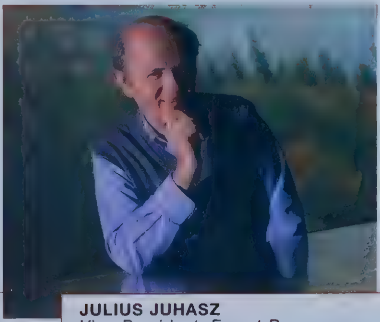
TERRY UPGAARD
Vice-President, Sales and Marketing

DON CLUTTERHAM
Vice-President and Regional Manager-Operations



JIM BARBER
Vice-President and Regional Manager-Operations

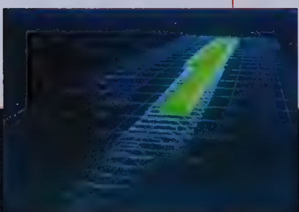
DAN BRECK
Vice-President, Fibreco Pulp Division

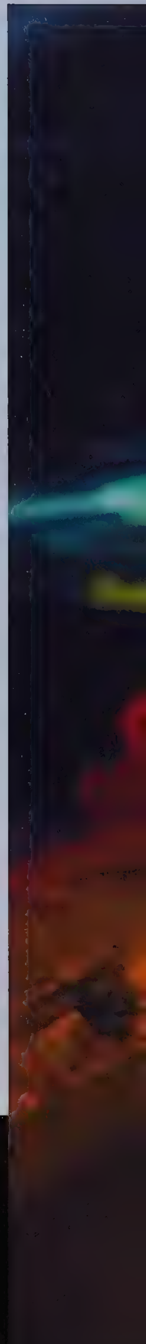


JULIUS JUHASZ
Vice-President, Forest Resources

TERRY HODGINS
Vice-President and Financial Officer

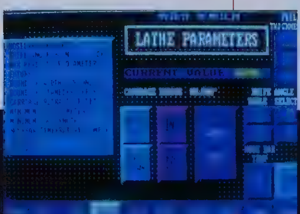
"WE MUST ALWAYS GIVE PEOPLE THE RIGHT TOOLS TO DO THE JOB."



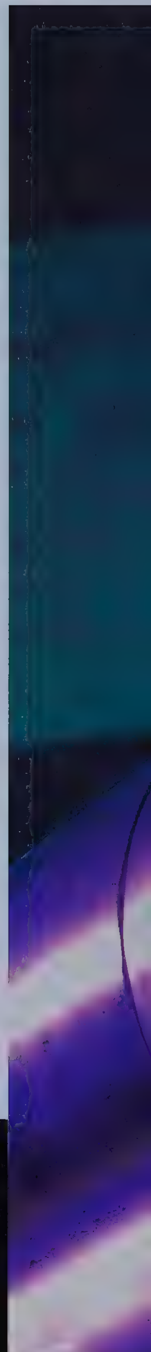


At the very heart of lumber manufacturing, razor-sharp knife blades mounted on a rapidly spinning metal disc, cut small chips of wood from raw logs to create the optimum cant for sawing into lumber. Today, a new chipping canter at one of the Mackenzie Operations' sawmills, and curved sawing at Radium Division are helping us recover more lumber from our trees, improve product quality and cut costs. From the boardroom to the forest floor, everyone at Slocan is focused on improving the bottom line.

"WE PEEL EACH LOG JUST LIKE PEELING AN APPLE – RIGHT DOWN TO THE CORE."

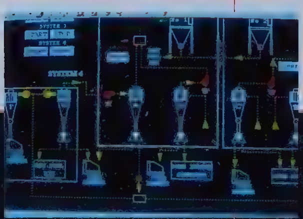


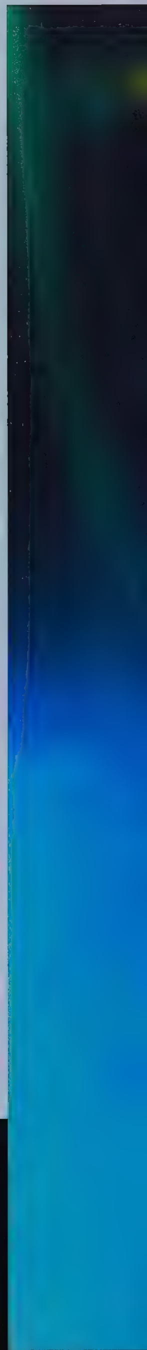
Sheets of veneer, the thin, tough wood layers used to create a sheet of plywood, are peeled from aspen and spruce logs by a new lathe at our Tackama plywood mill in northern British Columbia. Held in place by a revolutionary three-section retractable "chuck", each log is peeled down to a two-inch core. Less waste, more finished product, lower costs — a solid framework for increased profits at one of North America's largest plywood plants.




LATHE

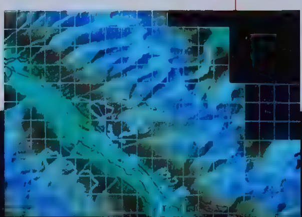
"YOU'VE GOT TO TURN UP THE HEAT TO MAKE PRODUCTS THAT THE WORLD WANTS."



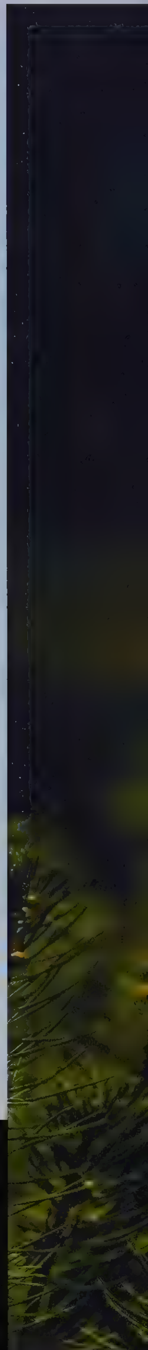


Applying extreme heat and pressure to a mixture of aspen wood flakes, powdered wax and resin creates oriented strand board (OSB) — a panel product dominating today's construction industry. Additional thermal heat, generated by newly installed equipment, is helping achieve a 20% capacity increase at our OSB plant in northern British Columbia. By increasing production capacity, we are reducing costs and building a healthier balance sheet.

"YOU CAN CHANGE THE IRON BUT YOU CAN'T CHANGE THE TREES."



Our primary goal is to understand our forests and continually upgrade our manufacturing facilities to convert the available trees to their best possible use. Our foresters use a sophisticated, locally designed computer program (FORUM) to predict how forests and timber supplies on our tree farm licences will look in decades, even centuries, to come. A better understanding of our forests allows us to make those changes to our mills that maximize the return from our resource.



SLOCAN AT A GLANCE

The timber supply for our sawmills, plywood mill and OSB mill is obtained primarily by harvesting areas covered by forest tenure agreements granted to Slocan by the Province of B.C. Forest tenures presently held by Slocan provide for harvesting rights totaling approximately 5.1 million cubic metres of timber per year in the interior of the province. This is one of the largest supplies of timber of any company in B.C. Ecologically-based forest practices, that include re-establishing trees on all areas harvested, ensure a long term sustainable supply of timber for all Slocan mills.

MANUFACTURING FACILITIES

LUMBER

Radium
120 million fbm

Dimension lumber, Japanese grades, MSR, boards, SPF, fir/larch

Major technology upgrade in 1997

"Curved" sawing technology increases lumber recovery

Slocan
100 million fbm

Dimension lumber, metric sizes, western red cedar products, boards, multi-species

Computer optimized band mill cuts high value timber from large logs

Vavenby
170 million fbm

Dimension lumber, Japanese grades, SPF, Douglas fir

Specializes in production of long lengths to 24'

Valemount
90 million fbm

Specialty lumber for Japanese market, studs

Manufactures lumber for export markets from interior wet-belt timber

Quesnel "A" Mill
150 million fbm

Dimension lumber, Japanese grades, MSR, boards, studs

Specializes in processing lodgepole pine

Quesnel Specialties
25 million fbm

Specialty lumber products for Japanese market, studs, bed frame stock

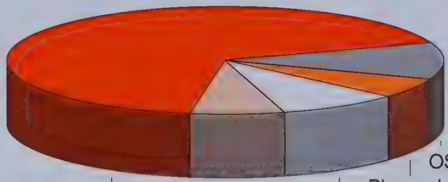
Processes small lodgepole pine timber down to 2 ¾" tops

Plateau
300 million fbm

Dimension, Japanese grades, MSR, studs

One of the largest sawmills in B.C.

1999 REVENUE GENERATED BY EACH PRODUCT GROUP



1978 — Formed company and acquired Slocan sawmill and timber harvesting rights

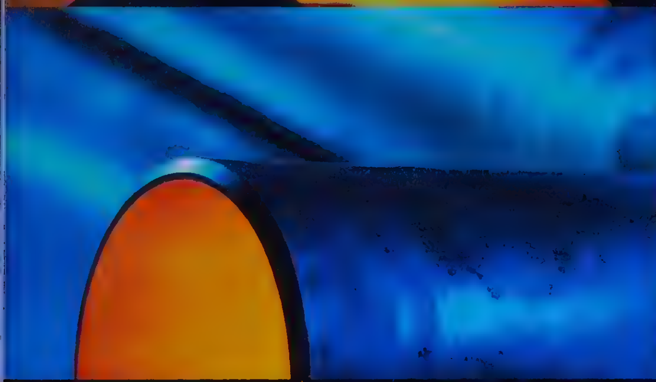
1979 — Acquired Quesnel sawmill and timber harvesting rights

1985 — Acquired Radium sawmill and timber harvesting rights

1987 — Acquired Vavenby and Valemount sawmills and timber harvesting rights

Acquired Quesnel Specialties sawmill and timber harvesting rights

HISTORY OF GROWTH



		OSB	PLYWOOD	VALUE ADDED	WOOD CHIPS	PULP
Mackenzie (2 mills) 400 million fbm	**Tackama** 120 million fbm	**PolarBoard** 510 million sq.ft.	**Tackama** 300 million sq.ft.	**Uneeda** 35 million fbm	**10 sawmills** 800,000 BDUs	**Fibreco** 240,000 tonnes
Dimension lumber, Japanese grades, MSR	Studs, boards	Variety of thicknesses and sizes	Industrial and specialty plywood products	Laminated beams, finger jointed products, remanufactured products	Wood chips for the production of pulp	Chemi-thermo mechanical pulp ranging from low brightness newsprint grades to high brightness bleached tissue
Installing a new planer and MSR capacity that will significantly increase total Slocan MSR production *100% self sufficient in timber*	*100% self sufficient in timber*	*Capacity being increased to 510 million sq. ft. by August 2000.* *Uses pure aspen* *100% self sufficient in timber*	*Capacity being increased to 300 million sq. ft. by June 2000.* *Installed new veneer lathe that uses latest technology to peel down to 2" core* *Uses aspen and white spruce*	*Newly installed beam laminating plant* *Custom processing capacity*	*One of the largest producers of wood chips in the province*	*Mill is now producing both softwood and hardwood chlorine-free pulp*

1989 Acquired Tackama sawmill and plywood mill and timber harvesting rights and Cantree plywood operation

1991 Acquired 80% joint venture interest in Fibreco pulp mill and timber harvesting rights

1993 Acquired Plateau sawmill and timber harvesting rights

1994 Acquired 49.9% interest in the Finlay operations and timber harvesting rights

1995 Increased capacity of Fibreco pulp mill to 240,000 tonnes

1996 Completed construction of the PolarBoard OSB plant and activated harvesting rights

Acquired Uneeda Wood Products

1997 Acquired the 2 Mackenzie sawmills and timber harvesting rights

1998 Permanently closed Cantree Plywood operation

Acquired 100% ownership of the Fibreco pulpmill

1999 Sold interest in Finlay operations to Donohue Inc.

5 YEAR REVIEW

(IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS)	1999	1998	1997	1996	1995
CONSOLIDATED STATEMENT OF EARNINGS					
Sales	**$1,085,813**	$ 936,232	$ 945,931	$ 802,839	$ 862,005
COSTS AND EXPENSES					
Cost of products sold	**774,479**	819,903	801,087	667,290	688,258
Depreciation and amortization	**56,171**	69,766	68,110	51,682	43,904
Selling and administration	**24,584**	32,710	28,687	27,453	26,895
	855,234	922,379	897,884	746,425	759,057
Earnings from Operations	**230,579**	13,853	48,047	56,414	102,948
Interest	**(45,500)**	(64,562)	(45,895)	(30,200)	(25,807)
Loss on sale of investment in Finlay	**(11,009)**	-	-	-	-
Foreign exchange gain on US $ debt	**10,299**	-	-	-	-
Write off of deferred changes	**(634)**	(49,090)	-	-	-
Asset write downs	**-**	(133,500)	-	-	-
Other income	**-**	-	-	-	5,696
Earnings before income taxes	**183,735**	(233,299)	2,152	26,214	82,837
INCOME TAX EXPENSE (RECOVERY)					
Current	**3,946**	1,050	16,449	(4,738)	25,228
Deferred	**71,472**	(75,127)	(14,742)	16,144	6,970
	75,418	(74,077)	1,707	11,406	32,198
Earnings (loss) before equity in earnings (loss) of affiliates and non-controlling interest	**108,317**	(159,222)	445	14,808	50,639
Equity in earnings (loss) of affiliates	**100**	(326)	21	(575)	3,762
Non-controlling interest	**-**	1,733	1,645	3,397	(3,553)
Net Earnings (loss)	**$ 108,417**	$(157,815)	$ 2,111	$ 17,630	$ 50,848
Net earnings per common share –					
Basic	**$ 2.84**	$ (4.14)	$ 0.06	$ 0.57	$ 1.60
Fully diluted	**$ 2.72**	$ -	$ 0.06	$ 0.54	$ 1.51

SLOCAN

1999

ANNUAL STATUTORY REPORT

Including the Slocan Forest Products Ltd. 1999 Annual Information Form Dated March 7, 2000

TABLE OF CONTENTS

ANNUAL INFORMATION FORM

MARCH 7, 2000

GLOSSARY

Certain terms used throughout this Annual Information Form are defined below:

"**AAC**" means allowable annual cut, the volume of timber which the holder of a tree farm licence, a forest licence or a timber sale licence may harvest under the licence in a given year;

"**ADMt**" means an air dried metric tonne of pulp with a moisture content of 10% or less;

"**BDU**" means one bone dry unit of 2,400 pounds of oven-dried wood fibre;

"**Cantree**" means Cantree Plywood Corporation, a British Columbia company;

"**Common Shares**" means any of the authorized common shares of the Company;

"**Company**" means Slocan Forest Products Ltd., a British Columbia company;

"**CTMP**" means chemi-thermo mechanical pulp, which is pulp produced from wood chips using heated mechanical and chemical (non-chlorine) processes to break bonds between wood fibres;

"**Donohue**" means Donohue Inc., an integrated forest products company, incorporated in Quebec;

"**Fibreco Export**" means Fibreco Export Inc., a British Columbia company in which Slocan has approximately a 22% equity interest;

"**Finlay**" means Finlay Forest Industries Inc., a British Columbia company;

"**MSR**" means machine stress rated, a method of rating the strength of lumber for use in building applications such as engineered roof trusses;

"**Newsprint**" means a printing paper whose major use is in newspapers;

"**OSB**" means oriented strand board, a panel board product used in the construction industry;

"**Plateau**" means Plateau Forest Products Ltd., a British Columbia company which is a wholly owned subsidiary of the Company;

"**Pulp Mill**" means the CTMP mill owned by Slocan located at Taylor, British Columbia;

"**Right**" means a Common Share purchase right issued pursuant to the Company's Shareholder Rights Plan;

"**Senior Notes**" means the US dollar denominated senior notes issued by Slocan;

"**Slocan**" means the Company and its subsidiaries, and, unless the context otherwise requires, includes Slocan Group and excludes the Company's proportionate interest in Finlay which was sold by Slocan to Donohue in August 1999;

"**Slocan Group**" means the British Columbia general partnership comprised of the Company, Tackama and Plateau;

"**Specialty Paper**" means high bright and specialty printing paper, which differ from newsprint in brightness and surface characteristics and whose major use is in higher print quality publications;

"**SPF**" means lumber produced from the spruce, pine and balsam fir species of trees;

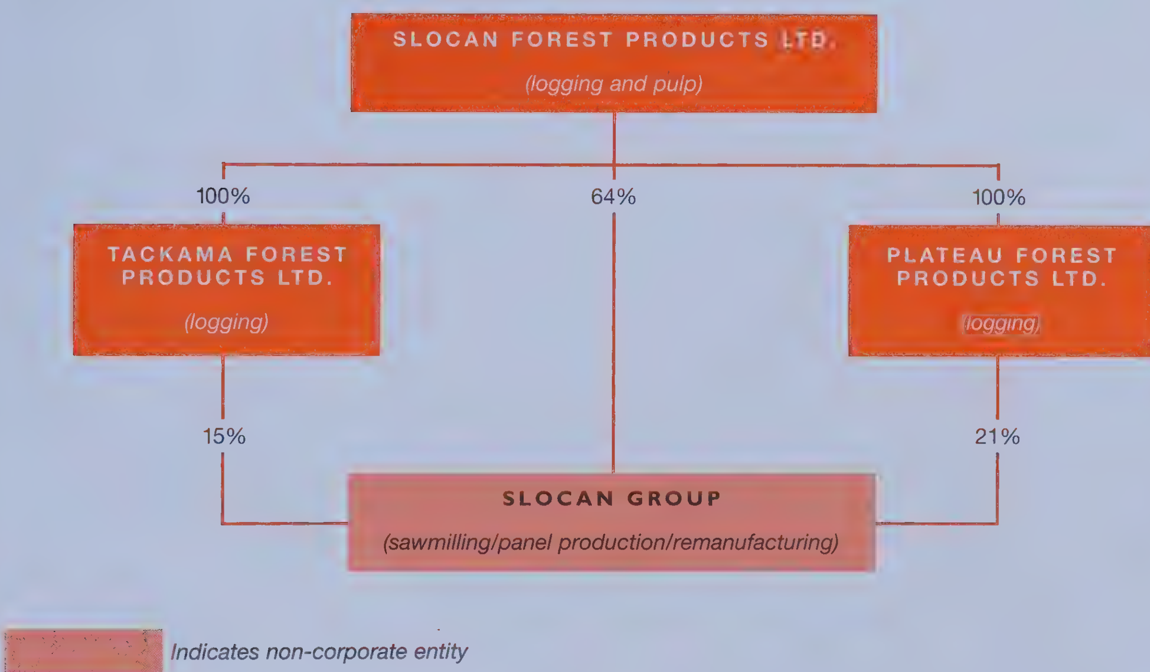
"**Tackama**" means Tackama Forest Products Ltd., a British Columbia company which is a wholly owned subsidiary of the Company; and

"**TMP**" means thermo mechanical pulp, which is pulp produced from wood chips using heated mechanical processes to break the bonds between wood fibres.

THE COMPANY

The Company was incorporated on May 2, 1978, under the Company Act (British Columbia). Its principal and head office are located at #240 - 10451 Shellbridge Way, Richmond, British Columbia, V6X 2W8. Its registered office is located at 1600 - 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2.

The chart below shows the Company's principal operating subsidiaries and the interests of the Company in Slocan Group, as well as their primary products or activities. The percentages on the chart refer to the percentage of voting securities beneficially owned or over which control or direction is exercised by the Company (except for Slocan Group, where the percentages refer to the partnership interests held). The jurisdiction of incorporation of each of the companies shown below is British Columbia. The agreement constituting Slocan Group is governed by the laws of British Columbia.



The Company sold its 49.9% interest in Finlay's logging, sawmilling and newsprint operations in August 1999.

The Company also has other inactive subsidiaries as well as investments in certain other non-subsidiary corporations that are not shown on the chart above. See "Other Investments".

BUSINESS OF THE COMPANY

PROFILE OF SLOCAN

Slocan is one of the largest forest products organizations in British Columbia, with timber resources and production facilities throughout the interior region of the Province and a remanufacturing facility near Vancouver. Under forest tenures granted by the Province of British Columbia, Slocan has the right to harvest a total of approximately 5.1 million cubic metres of timber annually, including rights under a pulpwood agreement held by Slocan relating to its OSB plant. Slocan is also seeking an ammendment from the Ministry of Forests to allow it to use up to 500,000 cubic metres per year from the pulpwood agreement it holds in the Fort St. John area.

Slocan presently owns and operates ten sawmills, a plywood facility, an OSB plant, a pulp mill and a lumber remanufacturing facility in British Columbia. The combined total annual productive capacity of these facilities is approximately 1.5 billion board feet of lumber, 300 million square feet (3/8 inch basis) of plywood (upon completion of current expansion project), 800,000 BDUs of wood chips and 240,000 ADMts of pulp. Slocan's OSB plant at Fort Nelson, British Columbia has an annual capacity of approximately 440 million square feet of OSB on a 3/8 inch basis and is being modified to approximately 510 million square feet. The custom processing and remanufacturing facility located near Vancouver, British Columbia has an annual capacity to produce approximately 30 million board feet of specialty lumber, 20 million board feet of finger jointed lumber and to kiln dry approximately 36 million board feet of lumber. This facility is being modified to enable it to produce up to approximately 35,000 cubic metres of laminated beams.

On August 4, 1999, Slocan sold its 49.9% interest in Finlay and its forest licence with an AAC of 1,174,342 cubic metres, two sawmills with a combined annual capacity of 360 million board feet of lumber and 180,000 BDU's of wood chips, a newsprint and specialty paper mill with an annual capacity of 210,000 tonnes and a TMP mill which supplies the paper mill, to Donohue, its then equal co-owner of Finlay, for $80 million in cash. Unless stated otherwise, the disclosure in this Annual Information Form excludes Slocan's 49.9% proportionate interest in Finlay's assets and operations until its disposition in August 1999.

HISTORY OF SLOCAN

Since its formation in 1978 to acquire a sawmilling operation in the Slocan Valley in south-eastern British Columbia, the Company has steadily acquired timber resources and production facilities, mostly throughout the interior region of British Columbia. The following is a summary of acquisitions made and significant projects and transactions undertaken by the Company in the period from 1978 to 1999:

- May 1978: acquired the Slocan Division;
- March 1979: acquired the Quesnel Division's main sawmill operations;
- December 1985: acquired the Radium Division;
- May 1987: acquired Clearwater Timber Products Ltd., which owned the Vavenby and Valemount Divisions;
- July 1987: acquired the Quesnel Division's specialty sawmill operations;
- October 1989: acquired the Tackama Division, together with a 50% interest in Cantree;
- May 1991: acquired Fibreco Pulp Inc. and its subsidiary, which owned an 80% joint venture interest in the Pulp Mill;
- April 1993: the Company and Tackama formed a general partnership under the management of the Company to carry on their respective sawmill and plywood business under a common name, "Slocan Group". The Company's and Tackama's sawmill and plywood operations were transferred to the general partnership in September 1993;
- May 1993: acquired the Plateau Division;
- April 1994: together with Donohue, acquired the Finlay operations;
- December 1994: Plateau joined the Slocan Group and transferred the assets comprising its sawmill operations to the general partnership effective January 1, 1995;
- December 1995: completed equipment and process modifications to increase the operating efficiency and production capacity of the Pulp Mill;
- January 1996: completed the PolarBoard Division's OSB plant and completed a TMP facility at the Finlay operations;
- September 1996: acquired the Uneeda Wood Products Division, a custom lumber processing and remanufacturing facility whose operations were transferred to and are now carried on by Slocan Group;
- June 1997: acquired the Mackenzie Operations. The Mackenzie Operations sawmilling assets were transferred to, and its operations are now carried on by Slocan Group;
- November 1998: with the other owner of Cantree, permanently discontinued operation of the Cantree plywood facility in Vancouver, British Columbia. See "Lumber and Panel Manufacturing";

- December 1998: obtained Fibreco Export's 20% joint venture interest in the Pulp Mill, giving Slocan a 100% ownership interest in this production facility effective January 1, 1999; and
- August 1999: disposed of the interest in Finlay to Donohue.

TIMBER RESOURCES

The timber supply for Slocan's sawmilling, OSB and plywood operations is obtained primarily by harvesting under forest tenures granted by the Province of British Columbia. Forest tenures presently held by Slocan provide for harvesting rights totalling approximately 5.1 million cubic metres of timber, including 610,000 cubic metres of timber Slocan has the right to obtain under a pulpwood agreement relating to its OSB plant. In addition, Slocan has applied to the Ministry of Forests to amend a pulpwood agreement held by it in connection with the Pulp Mill in order to obtain access to up to 500,000 cubic metres of timber annually for use in the Fort St. John area. See "Pulp and Paper Manufacturing - Pulp Mill Operations - Fibre Supply". Slocan also purchases timber for its operations, chiefly from operators under the British Columbia Small Business Forest Enterprise Program and other private sources. See "Timber Resources – Log Purchases."

Slocan is able to supply over 80% of the overall timber requirements for its facilities from its forest tenures. Total annual timber consumption by Slocan's operations (inclusive of Slocan's proportionate share of Finlay's consumption) in 1999 was approximately 6.3 million cubic metres (approximately 6.2 million cubic metres in 1998). The following table shows the AAC and the actual cut by Slocan under its forest tenures as well as the volume of logs purchased by Slocan to supplement the timber supply for its operations for the last two years (including its proportionate 49.9% interest in the AAC and, until August 4, 1999, actual cut and purchases by Finlay):

FORMS OF TENURE

Approximately 95% of all timberlands in the Province of British Columbia are Crown lands. Subject to the British Columbia

TIMBER RESOURCES

THOUSANDS OF CUBIC METRES	1999	1998
FOREST TENURES		
AAC		
Forest Licences(1)(2)	**4,864**	4,864
Tree Farm Licences	**251**	251
Pulpwood Agreements(3)	**1,110**	1,110
Total	**6,225**	6,225
Actual Cut(1)(4)		
Forest Licences(2)	**4,244**	4,144
Tree Farm Licences	**299**	317
Pulpwood Agreements(3)	**541**	495
Total	**5,084**	4,956
PURCHASES		
Total	**1,216**	1,213

Notes:

(1) Includes Slocan's proportionate 49.9% interest in a forest licence with an AAC of 1,174,342 cubic metres relating to the Finlay operation; Slocan sold this interest to Donohue on August 4, 1999.

(2) Includes a ten year non-replaceable forest licence for the Quesnel Division effective June 1, 1998 with an AAC of 120,000 cubic metres. This licence replaced a four year licence which expired May 5, 1998.

(3) Includes a pulpwood agreement granted in connection with the PolarBoard Division's OSB plant, under which Slocan has the right to obtain timber sale licences to harvest up to 610,000 cubic metres of deciduous timber annually for use at that facility. See "Lumber and Panel Manufacturing - PolarBoard Division (OSB Plant)". Also includes a pulpwood agreement relating to the expansion of the Pulp Mill, in respect of which Slocan has made a proposal to the Ministry of Forests for an amendment to provide for an alternative use for the fibre. If this amendment is granted and on satisfying certain other requirements, Slocan would have the right to obtain timber sale licences to harvest up to 500,000 cubic metres of aspen and other deciduous timber annually for use in connection with the Pulp Mill and additional OSB capacity in the Fort St. John area. See "Pulp and Paper Manufacturing - Pulp Mill Operations - Fibre Supply".

(4) All 1999 actual cut figures are estimates.

Forest Act and Forest Practices Code of British Columbia Act and related regulations, rights to harvest Crown timber may be granted on behalf of the Crown in the form of forest tenures. The forms of forest tenures held by Slocan are tree farm licences, forest licences and pulpwood agreements. Harvesting under these tenures is subject to the holder's compliance to the satisfaction of the Ministry of Forests with obligations regarding forest management, harvesting and reforestation.

A tree farm licence is an area-based forest tenure that is granted for a term of 25 years and is replaceable after ten years for a further 25-year term, subject to satisfactory performance by the licencee of its harvesting and reforestation obligations. The licencee undertakes to manage the timberlands within the tree farm licence to produce an annual harvest on a sustained yield basis in accordance with a management plan approved by the Ministry of Forests.

A forest licence is a volume-based forest tenure that authorizes the harvest of a specified volume of timber each year from a particular timber supply area. Forest licences normally have a term of 15 years and are generally replaceable every five years for a further 15 years, subject to satisfactory performance by the licencee of its harvesting and reforestation obligations.

A pulpwood agreement grants a right to obtain timber sale licences to harvest timber, up to a specified maximum annual volume, from timber stands within a particular pulpwood area. A pulpwood agreement generally requires the holder to construct, expand or continue to operate a timber processing facility. It also normally requires the holder to acquire suitable raw materials for the facility which are available at reasonable prices from other operations in a particular geographical area before it can obtain timber sale licences under the pulpwood agreement. The pulpwood agreement in Fort Nelson has a 25 year term, and is not replaceable. The pulpwood agreement in Fort St. John has a 25 year term, and is replaceable after 10 years for a subsequent 25 year term.

The actual volume harvested under a tree farm licence and forest licence in any one year may vary up to 50% above or below its AAC, as long as the volume harvested over a five-year period is within 10% of the total AAC for that five-year period. Overcuts of more than 10% at the end of the five years result in a reduction in AAC in the next five year period and may also result in penalties. Undercuts of more than 10% in the five year period may result in a reduction of AAC. Relief from AAC reductions may be granted if an undercut has resulted from circumstances beyond the control of the licence holder.

As required by the Forest Act, as of December 31, 1996, the provincial chief forester determined an AAC for each tree farm licence, and the Crown land in each timber supply area, in the Province. The AAC reflects the timber conditions, regional and local economic and social interests and environmental considerations for these licenses and areas. He is required to repeat such determinations every five years. The impact on Slocan of these determinations has not been material and is not expected to adversely affect its operations.

The Forest Act provides for a 5% reduction in the AAC upon change of ownership of a tree farm licence or replaceable forest licence or timber sale licence or a change in control of the holder of such a licence which is consented to or deemed to be consented to by the Minister of Forests. If such a change of ownership or change of control occurs without consent, the Minister may cancel the tenure without compensation or may deem consent to have been given and impose requirements and conditions. The Government of the Province of British Columbia has confirmed that tenure holders which implement certain job creation plans at their operations may be eligible for a reinstatement of this 5% reduction in AAC.

In 1992, the Government of the Province of British Columbia appointed a Commission on Resources and Environment ("CORE") to create a province-wide strategy on land-use planning. The mandate of the Commission includes developing, implementing and monitoring regional and community-based planning processes. Slocan participated in a multi-party process organized by CORE to consider land-use issues in the Cariboo-Chilcotin and Kootenay-Boundary regions. Slocan has forest tenures in those regions and sawmills at the Slocan, Quesnel and Radium Divisions. The Commission released its reports on land-use strategy and recommended land use designations for the Cariboo-Chilcotin and Kootenay-Boundary regions in early and mid-1994 respectively.

The Government subsequently announced a land use plan for the Cariboo-Chilcotin region in October 1994 and the final draft of the report on the implementation of the plan was released in November 1997. Slocan has not experienced any reduction in its timber supply in the Cariboo-Chilcotin region as a result of this plan nor does Slocan anticipate that it will have a material effect on the Quesnel operation located in this region.

For the Kootenay-Boundary region, the Government approved a land-use plan in 1995 that delineated special land management regimes for the area. Until the land-use strategy is fully implemented in this region, it is not possible to conclude what impact this strategy may have on Slocan's timber supply or its Radium and Slocan operations in the Kootenay-Boundary region.

ABORIGINAL ISSUES

Aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia, including areas where Slocan's forest tenures and operations are situated. Provincial government policy requires that forest management and operating plans take into account and not infringe aboriginal rights and provides for consultation with aboriginal groups. Aboriginal groups have, at times, sought to restrict the Crown

from granting or renewing forest tenures and other operating authorizations relating to tenures on lands claimed by them without their consent.

The Delgamuukw decision of the Supreme Court of Canada in December 1997, which confirmed the continued existence of aboriginal title in areas of British Columbia which are not the subject of treaties, has resulted in increased demands from aboriginal groups. The decision has also resulted in some uncertainties as to the status of competing property rights, including existing forestry and other resource rights and land uses, which are not expected to be resolved in the near future. Pending resolution of these demands and uncertainties, Slocan expects that the process of obtaining government authorizations for its operations, and related consultations with aboriginal groups, may at times be affected. However, Slocan believes that cooperative arrangements, including employment opportunities and business relationships based on mutually beneficial, sound economic principles, can facilitate these processes.

In an effort to resolve outstanding aboriginal land claims within the province, the governments of British Columbia and Canada have to date been engaged in a process of treaty negotiation with fifty-one aboriginal groups. Some of these groups have withdrawn from negotiations since the Delgamuukw decision and commenced litigation to pursue their claims.

One treaty has been completed between the Nisga'a Nation and the governments of Canada and British Columbia. It has been ratified by the Nisga'a Nation and the Province of British Columbia; legislation granting approval by the government of Canada, and bringing the treaty into effect, is expected to be passed in early 2000. Agreement in principle (an "AIP") has been reached on a second treaty, with the Sechelt Indian Band. The Sechelt Indian Band is currently negotiating a final agreement with the governments of British Columbia and Canada.

The Nisga'a Treaty and the Sechelt AIP each provide for grants of fee simple title to a portion of the land within the traditional territory claimed by the aboriginal group and payment of compensation. In each case, the aboriginal government will have defined law-making powers over its lands and its members.

It is the policy of the British Columbia government that lands held in fee simple by third parties will not be affected by treaty negotiations and that the Province will respect the terms of all legal interests in Crown lands and resources including leases and licenses. However, where there are legal interests in Crown lands which, under a treaty, become treaty title lands, and where those legal interests have termination dates, or are subject to extensions or renewals, the Province will likely decline the grant of further interests, extensions or renewals. The Nisga'a treaty contemplates that future rights and interests within the treaty title lands will be subject to negotiation with the Nisga'a government and to potential payment of fees, royalties and other charges to the Nisga'a government.

Neither the Sechelt AIP nor the Nisga'a Treaty covers lands on which Slocan has any operations or forest tenures. However, in north-eastern British Columbia, treaty negotiations are progressing between the Kaska Dene Council and the governments of Canada and British Columbia. These negotiations could result in an agreement in principle within a year. Some of Slocan's operations and forest tenures in northern B.C. are located within the traditional territory claimed by the Kaska Dene Council. Slocan has been providing employment and business opportunities for the Kaska Dene in its woodlands and manufacturing operations for many years. In March 1998, Slocan and the Kaska Dene Council signed a letter of intent to undertake certain activities together and to work toward legally binding agreements to address mutual needs and interests. Slocan is optimistic that it can develop mutually beneficial arrangements such as these with aboriginal groups in its operating areas throughout the interior of the province.

To date, neither the ongoing treaty negotiations nor aboriginal land claims have had a significant impact on Slocan's forestry operations, and all of its operating divisions continue to work with local aboriginal groups on business and employment opportunities.

FOREST MANAGEMENT

Slocan is responsible for forest management on the lands under its forest tenures. All Crown timberlands on which Slocan carries out harvesting operations are required to be managed on a sustained yield basis.

Slocan's forest management activities on its tree farm licences are carried out in accordance with management plans that are submitted to the Ministry of Forests every five years and are subject to the Ministry's approval. These plans include proposed inventories of the forest resources, management objectives and strategies for meeting these objectives. Harvesting in any area is subject to Ministry of Forests approval of a forest development plan and silviculture prescription for the area.

Slocan carries out its forest management responsibilities through a staff of registered professional foresters and forestry technicians. Slocan's forestry staff supervises all aspects of forest management including Slocan's planning, road development, harvesting, reforestation and forest protection programs, as well as its programs to increase the yield of its forest lands and improve the quality of its timber resources.

To assist the Ministry of Forests in protecting forest resources, Slocan maintains a fire prevention and suppression organization and undertakes regular surveillance activities to detect and appraise the presence, extent and significance of any forest insect or disease outbreak in its forest tenures or areas of operation. Slocan, together with other British Columbia forest companies, is presently working with the Ministry of Forests to

address the infestation of certain central interior forests in British Columbia by the mountain pine beetle. The Ministry and industry participants have been cooperating to identify infested areas and to implement certain counter measures to reduce the impact of the infestation, including the acceleration of harvesting of affected areas. Neither the pine beetle infestation nor any other forest insect or disease outbreak is currently creating any economically significant problems for Slocan.

The Forest Practices Code of British Columbia Act (the "Code") sets out a code of conduct for Crown forest tenures designed to protect fisheries, wildlife, biodiversity, cultural heritage, forest soils and special management areas such as community watersheds. The Code also establishes detailed planning procedures and sets standards for forest practices applicable to both licencees and the Crown. To encourage compliance with its provisions, the Code contains a system of penalties for contraventions, including AAC reductions. The severity of any penalty is dependent on the nature and frequency of contraventions. Contraventions can include violations by independent contractors performing work for licencees and may be determined by Crown authorities to have occurred notwithstanding appropriate efforts and reasonable "due diligence" on the part of the licencee.

Although a number of compliance issues arose for Slocan's forestry operations during 1999, none of these were material, and its operations were otherwise conducted in substantial compliance with the Code. Slocan did not experience any material increase in costs related to the Code in 1999, largely due to the familiarity of Slocan's personnel with the requirements of the Code gained over the last few years as well as reductions by the government in the Code's administrative burdens on licencees. However, because of the extent of the problems and costs which the forest industry has incurred as a result of the Code since its implementation, the provincial government, together with representatives of the forest industry, including Slocan, is considering further modifications to the Code which would provide a lower cost and more efficient means of enabling B.C. forest companies to meet the standards of the Code and still preserve its objective of the sustainable use of forest resources. Slocan is also currently participating in certain pilot projects and programs initiated by the B.C. government in the interior and northern regions of the province which are designed to identify and implement on a trial basis alternative and more efficient means of managing forest resources and yet provide resource protection equivalent to that contemplated by the Code.

FOREST CERTIFICATION

Environmental awareness and concern about the sustainability of global forest management practices has lead to the development of various registration and certification systems for the forest industry. Systems currently being applied in British Columbia include those developed by the International Standards Organization (ISO), Canadian Standards Association (CSA) and the Forest Stewardship Council (FSC).

The Ministry of Forests announced in January 2000 that it would be developing a province-wide environment management system for the Small Business Enterprise Program that would meet ISO 14001 registration requirements. See "Timber Resources - Log Purchases". Various certification systems would then be tested around the province in preparation for the entire small business program to move toward certification. A portion of Slocan's fibre requirements are met through purchases from independent operations working under the Small Business Enterprise Program. Certification initiatives by the Ministry of Forests are not expected to have a material impact on wood supply from this source.

Slocan's current environmental management system stresses local accountability and responsibility for meeting all regulatory requirements. Local reviews are supplemented with periodic audits involving outside consultants. As a first step towards certification, this system will be enhanced during 2000 to meet all ISO 14001 requirements. It is expected that Slocan's system will be registered under ISO 14001 by December 31, 2001.

STUMPAGE CHARGES AND REFORESTATION

Stumpage charges are assessed by the Province of British Columbia on Crown timber harvested under the various forms of forest tenure, based on a pre-determined revenue target set by the provincial government. Until June 1, 1998, stumpage charges were based only on market lumber prices. As of June 1, 1998, the provincial government reduced stumpage charges applicable to licencees such as Slocan operating in the interior of British Columbia by an average of $3.50 per cubic metre. The government also changed the manner in which stumpage charges are determined by including market wood chip prices as well as lumber prices in its calculations of applicable stumpage rates. This change is designed to better reflect the prevailing markets for British Columbia's wood products.

In 1999, Slocan paid $114.1 million ($24.85 per cubic metre) in stumpage compared to $95.1 million ($20.74 per cubic metre) in 1998 (including, in each case, Slocan's proportionate share of stumpage paid by Finlay up to August 4, 1999). In 1999, the Company's reforestation costs were $15.5 million for areas logged during the year compared to $15.9 million in 1998 (including, in each case, Slocan's proportionate share of Finlay's costs up to August 4, 1999).

TIMBER HARVESTING

Timber harvesting (which includes road construction, logging, and log transportation to Slocan's facilities) is done almost exclusively by independent contractors, the majority of whom have provided services to Slocan's operations for an extended period of time.

LOG PURCHASES

Slocan supplements the harvesting of timber from its forest tenures by purchasing logs from operators under the Small Business Forest Enterprise Program and from other private sources. Under the Small Business Forest Enterprise Program, the Ministry of Forests makes certain volumes of timber available for harvesting each year by small operators, who generally sell the harvested timber to local sawmills. Timber cut by smaller operators in areas adjacent to Slocan's sawmills is purchased by Slocan and used to supplement the timber supply available to those mills under its forest tenures.

PRODUCTION VOLUME SUMMARY

The volumes of products produced by Slocan's facilities (including its proportionate interest in Finlay's production until August 4, 1999) for the last two years are set forth below.

Production Volumes(1)

YEARS ENDED DECEMBER 31	1999	1998
Lumber	**1,381**	1,442
Plywood(2)	**176**	181
OSB	**433**	393
Pulp(3)	**171,185**	181,098
Paper		
Specialty Paper	**12,037**	31,566
Newsprint	**40,711**	58,388
Wood Chips(2)	**770,275**	771,055

Notes:

(1) *Figures for lumber are in millions of board feet; plywood and OSB production are in each case in millions of square feet on a 3/8 inch basis; wood chip production is in BDUs and pulp and paper production is in tonnes.*

In 1999, all of Slocan's and Finlay's lumber operations operated two 8 hour shifts per day (except for the Tackama Division which operated one shift per day in the last two months and the Valemount Division, which operated one shift per day) and approximately 250 operating days per year subject to curtailments identified below. The Tackama Division's plywood facility operated two and one half 8 hour shifts per day, the PolarBoard Division's OSB plant operated two twelve hour shifts per day and the Pulp Mill and the Finlay paper operations operated 24 hours per day and approximately 350 days per year.

Sawmill production was curtailed at all mills during 1998 and 1999 due to quota constraints on shipments of lumber to the United States. See "Lumber, Panel and Wood Chip Marketing and Distribution - Countervailing Duty".

(2) *Includes 50% of Cantree's production until November 1998, when this facility ceased operation.*

(3) *Includes 100% of the Pulp Mill's production. Production at the Pulp Mill was curtailed at various times throughout 1998 and the first quarter of 1999, during which time the mill operated only one line. Since April 1999, the Pulp Mill has operated at full capacity. See "Pulp and Paper Manufacturing - Pulp Mill Operations".*

LUMBER AND PANEL MANUFACTURING

Slocan presently owns and operates ten sawmills and one plywood facility and one OSB facility in the interior region of British Columbia. The total annual combined productive capacity of these facilities is approximately 1.5 billion board feet of lumber, 300 million square feet of plywood (3/8 inch basis), (upon completion of a current expansion project), 440 million square feet of OSB (3/8 inch basis) which is to be increased to 510 million by August 2000 and approximately 800,000 BDUs of wood chips. Dry kilns and planing facilities are located at each of Slocan's sawmills, providing it with sufficient kiln and planing capacity to meet its production needs. Until August 1999, Slocan also had an equal 49.9% interest with Donohue in Finlay's two sawmills with an annual productive capacity of 360 million board feet of lumber and 180,000 BDUs of wood chips. Slocan and Riverside Forest Products Ltd., joint owners of Cantree, permanently discontinued Cantree's plywood operation in November 1998 as a result of increasing veneer costs, deteriorating markets and increased competition from other products.

The majority of lumber produced by Slocan's mills is construction and specialty grade dimension lumber that ranges in size from one by three inches to two by twelve inches and in lengths from six to twenty-four feet. A growing portion of Slocan's lumber production (approximately 30% in 1999) is specialty products that command premium prices and includes MSR lumber that is used in engineering applications such as trusses and floor joists. Other specialty products include metric cuts for the Japanese market, precision cut components used in Japanese house construction, finger jointed lumber, furniture stock, extra long lengths and specialty interior and exterior solid wood panelling.

In 1999, Slocan authorized capital expenditures to increase its annual plywood capacity from 210 to 300 million square feet (3/8 inch basis) through the addition of new veneer peeling technology as well as additional drying capacity at its Tackama plywood operations. The implementation of these improvements is expected to allow the Tackama facility to utilize its timber supply more effectively, allow seven day per week operation and enable it to better serve a wide range of world panel markets, to which access is unrestricted. See "Capital Expenditures and Investments".

Slocan operates an OSB plant at Fort Nelson, British Columbia. In 1999, Slocan commenced the expansion of the plant's capacity from approximately 440 to 510 million square feet (3/8 inch basis). See "Capital Expenditures and Investments". OSB is manufactured from rectangular wood flakes alternating in 90 degree directions for each layer of panel in order to provide additional strength to each sheet of product.

Slocan also owns one of the largest custom remanufacturing facilities in the Province. Slocan's Uneeda Wood Products

Division has been in operation at its present location since 1972 doing custom remanufacturing and kiln drying for British Columbia forest companies. This operation has an annual capacity to produce approximately 20 million board feet of finger jointed lumber, to kiln dry approximately 36 million board feet of lumber, and remanufacture approximately 30 million board feet of lumber. In 1999, Slocan commenced the expansion of this facility to enable it to produce approximately 35,000 cubic metres per year of laminated beams.

Slocan's manufacturing facilities are designed to efficiently utilize the forest resource available in each facility's area of operation by maximizing lumber yields and value and by responding to the changing demands of the marketplace. Slocan's practice is to strategically invest funds in its facilities to improve operating capacity and productivity, increase lumber, chip and panel yields, lower manufacturing costs and produce higher value products. Over the past five years Slocan has invested a total of $230 million in constructing, modernizing and improving its lumber and panel facilities. See "Capital Expenditures and Investments." In addition to these strategic capital expenditures, in 1998 Slocan instituted a manufacturing and conversion costs savings program at all of its facilities which Slocan estimates reduced manufacturing and conversion costs by approximately $23 million in 1998 and a further $6.0 in 1999.

PRODUCTION FACILITIES

The following is a summary description of each of Slocan's lumber and panel manufacturing facilities:

TACKAMA DIVISION

The Tackama operations utilize approximately 503,000 cubic metres of coniferous timber and 102,000 cubic metres of deciduous timber annually. The manufacturing facilities consist of a plywood plant and sawmill. The plywood operation includes two green veneer lines feeding a modern lay-up line. The veneer lines produce veneer for Tackama's plywood plant at Fort Nelson. The plywood plant produces standard spruce and aspen sheathing for use in home construction, as well as sanded aspen plywood for furniture and paint grade applications. Approximately $15 million is being spent installing a single state-of-the-art lathe line replacing the two existing lathes and a fourth veneer dryer. This investment will enable the Tackama facility to increase veneer recovery, increase plywood production to 300 from 210 million square feet (3/8" basis) and expand its range of plywood products. The sawmill is a stud mill which has two small-log lines feeding a high-speed planer and an automatic lumber handling system. This mill produces various lengths of studs for the domestic and export markets.

POLARBOARD DIVISION (OSB PLANT)

The OSB plant is designed to produce OSB products for both North American and Asian markets. The plant's manufacturing equipment and technology provide production flexibility, including a 12' by 24' press that allows for the manufacture of 4'x 8' sheets common to the North American market and 3' x 6,' 3' x 8', 3' x 9' and 3' x 10' and metric sized sheets of OSB for developing markets in Asia. This press size also makes Slocan's OSB suitable for the mobile home industry that uses 4' x 16' and 4' x 20' panels. A $10 million capital project approved late in 1999, expected to be completed by August 2000, will increase the total OSB production by 20% to a total of approximately 510 million square feet (3/8" basis).

OSB currently represents over 50% of the overall market for structural wood panels in North America. In Japan, sales of OSB have been increasing due to cost, strength and functionality of the product, as well as a decrease in availability of plywood.

PLATEAU DIVISION

The Plateau mill at Vanderhoof is a three-line sawmill. A continuous program of improvement, including the installation of the latest computer controlled sawmill equipment has resulted in one of the largest and most efficient dimension sawmills in the Province. The mill now produces over 300 million board feet of dimension lumber each year including MSR lumber and studs. In late 1999, Slocan completed a $4.5 million modernization of the sawmill in order to improve lumber recoveries.

QUESNEL DIVISION

Slocan has two sawmills at Quesnel. The dimension sawmill is a high speed, lineal flow mill that produces both construction and specialty grades of lumber. This lumber is used for new home construction, home remodelling and industrial purposes. The main mill also produces MSR and J-grade lumber.

The Quesnel specialty products mill was designed to take full advantage of the fine grain and small knot sizes found in the small lodgepole pine logs which form part of the mill's timber base. This specialty mill produces over 200 sizes of standard and metric lumber primarily for the Japanese pre-fabricated housing industry. The specialty mill also has the capacity to manufacture stud lumber. In late 1999, Slocan completed a $2.3 million modernization of the specialty mill to improve lumber recoveries.

VALEMOUNT DIVISION

The Valemount facility has two lines, one to process larger log diameters and one to process smaller log diameters. The mill produces random length lumber and has the capability to cut to sizes required in the United States, the United Kingdom and the Japanese markets. The mill is presently operating as a specialty mill producing lumber principally for the Japanese market.

VAVENBY DIVISION

The Vavenby sawmill has three production lines, one of which is designed to process larger diameter logs, while the other two are high speed lines for small logs. The mill produces random length lumber up to 24 feet (which is a longer length than most interior British Columbia sawmills produce) and has the flexibility to produce lumber for different market specifications in North America, Europe and Japan.

MACKENZIE OPERATIONS

The two Mackenzie sawmills and planer mills produce dimension lumber, primarily for the North American and Japanese home construction markets. The Mackenzie facilities have also contracted with nearby independent value-added companies to add value through the production of finger-joint studs as well as other value-added products. All of the wood chips produced at the mills are consumed by a nearby pulp mill under a long-term supply agreement.

RADIUM DIVISION

The Radium mill has the capacity to produce products of various lengths for the general commodity market. Approximately 34% of the mill's production is higher value MSR lumber for use in structural applications. The mill has conventional small-log and large-log lines designed to process the range of log diameters harvested from its timber base. The modernization of this facility was completed in 1997 with the installation of new curve sawing, edging, trimming and primary breakdown technology.

SLOCAN DIVISION

The Slocan sawmill is a modern manufacturing facility with built-in flexibility to handle the wide variety of tree species available in the area. A computer-optimized band head-rig permits extraction of the maximum value out of larger, higher value logs while a chipping canter efficiently processes smaller timber into dimension lumber.

In addition to the head-rig, the edgers and trim saws have also been computer optimized to maximize lumber recovery from each log. Kiln dried lumber products are shipped to customers in North America, Europe and Asia. The Slocan Division sawmill also makes lumber available for purchase by local value-added manufacturers.

UNEEDA WOOD PRODUCTS DIVISION

The Uneeda operation, located near Vancouver, British Columbia, is a custom lumber remanufacturing and kiln drying operation serving the needs of a wide range of British Columbia lumber manufacturers, including some of the major forest companies in the province. The operation consists of moulding lines, a vertical twin band re-saw, various grading and sorting equipment, a finger jointing facility and twelve dry kilns with a capacity of 3.5 million board feet per month. Custom remanufacturing and kiln drying continue as primary focuses of the operation. A portion of the lumber from Slocan's sawmills is remanufactured into higher value products at Uneeda. In late 1999, Slocan initiated a $5.4 million capital project at this facility to enable it to produce up to 35,000 cubic metres of laminated beams per year.

LUMBER, PANEL AND WOOD CHIP MARKETING AND DISTRIBUTION

LUMBER

Slocan sells lumber on a delivered basis to its customers in North America. The volume of lumber shipped by Slocan is large enough to allow it to negotiate favourable freight rates to a variety of North American destinations.

Approximately 73% (approximately 80% in 1998) of Slocan's total 1999 lumber production (including Slocan's share of Finlay's production until August 4, 1999) was sold in the United States and was shipped by rail and truck. The balance was sold in Canada and offshore markets. Marketing and sales to all markets are handled by Slocan. Until August 1999, the Company also acted as exclusive agent for the sale of all lumber produced by Finlay and was compensated by Finlay for its services on a cost recovery basis. Since the sale of Slocan's 49.9% interest in Finlay to Donohue in August 1999, Slocan has continued to act as agent for Finlay's export lumber sales.

The location of the Slocan mills in the central and northern regions of British Columbia enables production from these facilities to be shipped by rail to Eastern Canada and the United States or by rail and truck to Vancouver for shipment by freighter to offshore markets.

The proximity of the Slocan and Radium sawmills in the southern region of British Columbia to the United States border enables them to take advantage of lower American freight costs for shipments to the United States. Their locations also provide them with a competitive advantage for truck shipments of lumber products into the Canadian prairies and the midwestern United States.

In 1999, approximately 8% (approximately 10% in 1998) of the total lumber production from all of Slocan's mills (including Slocan's share of Finlay's production until August 4, 1999) was sold to one customer in the United States. No other customer accounts for more than 10% of the total sales of lumber from these mills.

COUNTERVAILING DUTY

In 1996, Canadian and United States government negotiators concluded a trade agreement relating to the export of Canadian softwood lumber to the United States. Under this agreement, British Columbia has agreed to constrain its lumber shipments to

the United States to nine billion board feet annually for a five-year period ending in March 2001. The quota system established in British Columbia in order to implement this agreement is based on a system of export taxes applicable only on shipments in excess of approximately nine billion board feet, together with some other adjustment mechanisms. In exchange, the United States government and lumber producers have provided an undertaking not to initiate trade action to impose further constraints on Canadian softwood lumber producers for this five-year period.

The total quota allocated to Slocan by the federal government has resulted in restrictions on Slocan's exports to the United States, as has also been the case with most other British Columbia forest companies. The quota, together with lower prevailing lumber prices in 1998, has led to production curtailments at certain of Slocan's facilities in 1998 and 1999. In order to deal with these restrictions, Slocan has implemented strategies emphasizing the production of value-added products and a greater concentration on sales to domestic and non-United States export markets. Slocan has increased its plywood capacity and shifted some timber supply away from lumber production and into panel production in order to take advantage of unrestricted access to world plywood markets. In addition, laminated beams for the Japanese housing market will be manufactured at the Uneeda Wood Products Division upon completion of installation in March 2000 of additional equipment and upgrades at a cost of $5.4 million. A recently completed $2.3 million capital project at the Quesnel specialty mill will also further increase the volume of specialty products available for sale to Japanese customers. Both of these initiatives are part of Slocan's strategy to increase shipments to export markets, other than the United States.

Like many other British Columbia forest products companies, Slocan was manufacturing drilled and notched softwood lumber studs for shipment to the United States through 1998 on the basis that such studs were not covered by the 1996 trade agreement. Effective June 1998, the United States Customs Services issued a final ruling confirming drilled studs are covered by this agreement, after which Slocan discontinued its manufacture of both drilled and notched studs for shipment to the United States on an exempt basis, except for production specifically requested by customers. The volume of drilled and notched studs manufactured by Slocan was not material and therefore this ruling has not had a material adverse impact on Slocan or any of its operations.

PLYWOOD

Plywood produced at the Tackama mill in Fort Nelson is sold to North American, Japanese and European markets. This product is shipped by truck or rail to domestic customers depending on their proximity to the mill and by ship to offshore customers. In 1999, approximately 85% (approximately 93% in 1998) of Slocan's plywood production was sold in Canada and the majority of it was shipped to Eastern Canada by rail. Approximately 67% of the plywood production for 1999 (approximately 68% in 1998) at the Tackama mill was sold to four principal customers.

OSB

Approximately 81% of Slocan's 1999 OSB production (approximately 79% in 1998) was sold in the United States. In 1999, approximately 37% (approximately 52% in 1998) of the OSB produced at Slocan's PolarBoard plant was sold pursuant to arrangements entered into with one major customer in the United States. The OSB is shipped primarily by rail to customers in North America and by ship to customers in offshore markets.

WOOD CHIPS

Wood chips are an integral part of Slocan's production and revenue stream. The wood chips produced at Slocan's sawmills are sold to various domestic pulp mills and to Fibreco Export and are shipped by rail and by truck. In 1999, Slocan sold an aggregate of 770,275 BDUs of wood chips (775,331 BDUs in 1998) (including Slocan's share of Finlay's production until August 4, 1999) for total proceeds of approximately $68.1 million ($65.8 million in 1998).

In 1999, approximately 1% of wood chip sales were made to Fibreco Export (25% in 1998), in which Slocan has a 22% equity interest (29.7% until December 31, 1998). Approximately 76% (72% in 1998) of Slocan's 1999 wood chip production was sold to four principal customers in British Columbia. Until December 31, 1998, Fibreco Export also sold wood chips to the Pulp Mill based on domestic and export market prices. Effective December 31, 1998, Slocan became responsible for the supply of wood chips to the Pulp Mill previously provided by Fibreco Export.

In February 1995, Slocan Group entered into a ten year wood fibre contract for the supply of hog fuel, sawdust and wood chips to Weyerhaeuser Canada Ltd. ("Weyerhaeuser") at current market prices that are adjusted quarterly. The wood chip volume is for an aggregate of 1.3 million BDUs over the term of the contract, which accounts for approximately 17% of Slocan's total annual chip production (17% in 1998).

WOOD PRODUCTS SALES AND DISTRIBUTION

The following table shows the distribution of sales revenues from Slocan's sawmills and panel facilities (including Slocan's proportionate share of Finlay's production until August 4, 1999) by major wood product and region for the last two years:

YEARS ENDED DECEMBER 31 (IN THOUSANDS OF DOLLARS)	1999	1998
Lumber	**$ 727,223**	$ 615,982
Plywood and veneer[1]	**68,843**	48,615
OSB	**118,113**	80,664
Wood chips[2]	**72,174**	65,831
Total	**$ 986,353**	$ 811,092
United States	**$ 635,225**	$ 563,236
Canada	**285,211**	214,109
Asia	**65,917**	33,747
Total	**$ 986,353**	$ 811,092

Notes:

(1) Includes 50% of Cantree's plywood sales and veneer sales by the Tackama Division to Cantree until November 1998. See "Lumber, Panel and Wood Chip Marketing and Distribution - Plywood."

(2) Includes wood chip sales to Fibreco Export and hogfuel and sawdust sales. See "Lumber, Panel and Wood Chip Marketing - Wood Chips".

RESEARCH AND DEVELOPMENT

Slocan contributes to and participates in the industry-supported organizations Forintek Canada Corp. (wood products research) and The Forest Engineering Institute of Canada (harvesting and silviculture research). Slocan is also committed to development efforts in its operations, including continuing improvements in the areas of health and safety, product development, higher-value utilization of timber resources and market development.

In 1999, Slocan contributed $400,000 towards the creation of a new $3.2 million research position at the University of Northern B.C. that will lead a program of advanced research in sustainable forest management of northern forests. Much of the research will be based in a new $1.7 million enhanced forestry research facility at the university made possible by a personal donation of $500,000 from I.K. Barber, Chairman and Chief Executive Officer of Slocan.

PULP AND PAPER MANUFACTURING

PULP MILL OPERATIONS

The Company owns 100% of the Pulp Mill. Until December 31, 1998, the Pulp Mill was owned on a joint venture basis between the Company as to 80% and Fibreco Export as to 20%. Slocan is also a shareholder in Fibreco Export. See "Other Investments - Fibreco Export Inc."

OPERATIONS OF THE PULP MILL

The Pulp Mill's rated production capacity is 240,000 ADMts of pulp per year based on 24 hours per day and 348 operating days per year. However, in 1999, production was only 171,185 ADMts (181,098 ADMts in 1998). Production was curtailed during the first quarter of 1999 due to an over supply of pulp in the world markets. In addition, trial runs of bleached aspen pulp were conducted during 1999 which resulted in a further decrease in production volume due to equipment limitations. These limitations are expected to be addressed by the capital expenditure program at the Pulp Mill described below.

The mill has a two-line configuration with the capability to manufacture pulp products ranging from high brightness tissue and towelling grades to low brightness newsprint grades. In the fourth quarter of 1999, Slocan approved capital expenditures of approximately $6 million to install equipment for the production from the Pulp Mill of high bright grades of aspen (hardwood) pulp (including grades of up to a brightness of 85% ISO) which is currently in high demand and commands premium prices relative to softwood grades. Installation is expected to be completed by May 2000.

The mill utilizes a CTMP process characterized by a highly efficient utilization of wood fibre and the use of hydrogen peroxide for bleaching. The amounts of pulp produced or pulp yield from each unit of wood chips is approximately double that achieved through the kraft process. The use of hydrogen peroxide for bleaching permits the total elimination of chlorine and chlorine compounds from the process. These two features are highly attractive in an increasingly environmentally conscious world market.

The mill is located at Taylor, British Columbia, which gives it access to a chip supply comprised of northern white spruce and aspen hardwood. These chips provide a high quality fibre for the production of both softwood and hardwood CTMP. These preferred species of chips, in combination with the mill's production flexibility, enhances the development of new applications for the Pulp Mill's pulp products for particular consumers and improves the competitive position of the mill's products in the world market, in particular through the production of aspen hardwood pulps.

During 1999, Slocan was successful with the assistance of the B.C. Job Protection Commission, in developing an Economic Plan which enabled Slocan to maintain operations at its Pulp Mill through a period of depressed conditions in the pulp industry. This Plan involved the participation and co-operation of several parties in restructuring or deferring certain costs. This included restructuring energy costs based on a formula tied to pulp prices and mill operating rates. During 1999, this reduced energy costs by approximately $7.9 million. Under the Plan, energy costs in future years will also be based on the prevailing price of pulp and mill operating rates, which may result in higher energy costs as

pulp markets improve. These arrangements will continue until such higher costs equate to the cumulative benefit received.

FIBRE SUPPLY

Until December 31, 1998, Fibreco Export was committed to supply up to a maximum of 195,000 BDUs of wood chips annually for the requirements of the Pulp Mill's operations at market prices. Since January 1, 1999, Slocan has been responsible for the supply of all wood chips required for the Pulp Mill's operations.

Slocan holds a pulpwood agreement related to the Pulp Mill which entitles it to obtain timber sale licences to harvest up to a maximum of 500,000 cubic metres of aspen per year for 25 years, which was renewed in 1998. The grant of these licences is conditional upon Slocan expanding the existing Pulp Mill in order to approximately double its original capacity. Slocan believes that a substantial increase in CTMP pulp capacity is not economically feasible in the foreseeable future. As a result, Slocan has proposed to the Ministry of Forests an amendment to the agreement which would allow an alternative means of using the fibre, either entirely or in part in connection with additional OSB capacity, in order to satisfy the requirements for access to the timber resources covered by the pulpwood agreement. A public meeting regarding Slocan's proposed amendments was held in May 1999, and Slocan expects a favourable reply to its proposal from the Ministry before the end of 2000.

MARKETING AND DISTRIBUTION

Slocan directs the world-wide sales and marketing of all pulp produced by the Pulp Mill in conjunction with Ekman and Co. A.B. ("Ekman"), an international sales and marketing firm, under an exclusive agency agreement. Ekman has offices around the world serving major markets and is further represented by accredited sub-agents.

Ekman has acted as exclusive agent for the sale of pulp produced by the Pulp Mill since 1984. Effective December 31, 1999, Slocan received a one time US $1.5 million retroactive freight rebate from Ekman in respect of prior pulp sales in recognition of generally unfavourable market conditions affecting pulp sales during that time. Effective January 1, 2000, Ekman and Slocan entered into a new long term exclusive agency agreement.

The Pulp Mill has developed a world-wide customer base. Although all sales by the Pulp Mill are on a current market price basis, a majority of the volume is sold to repeat customers. In 1999, approximately 46% (approximately 39% in 1998) of the total pulp production was sold to three customers. No other single customer accounted for more than 10% of the annual sales. Approximately 72% of the Pulp Mill's pulp was sold to customers in Asia (approximately 79% in 1998).

The Pulp Mill is served by rail for chip delivery and product distribution. Rail networks connect the Pulp Mill to points in Canada and the United States. Domestic North American customers are served by direct rail or truck delivery, although only a minor amount of pulp is trucked due to high transportation costs. Pulp destined for off-shore markets is transported by rail for loading onto deep-sea vessels, primarily at Squamish, British Columbia.

GEOGRAPHICAL DISTRIBUTION OF PULP SALES

The following table shows total sales revenues (of which Slocan's proportionate share, including Slocan's equity interest in Fibreco Export, was until December 31, 1998 approximately 86% and thereafter 100%) and the distribution of such revenues from pulp sales by the Pulp Mill by geographic region for the last two years:

YEARS ENDED DECEMBER 31 (IN THOUSANDS OF DOLLARS)	1999	1998
Asia	**$ 47,921**	$ 46,050
United States	**1,184**	763
Canada	**1,092**	1,449
Other Offshore Markets	**16,211**	10,364
Total Pulp Sales	**$ 66,408**	$ 58,626

FINLAY OPERATIONS

Slocan sold its 49.9% interest in the Finlay operation to Donohue on August 4, 1999 for $80 million in cash. Finlay's integrated pulp and paper operations located at Mackenzie, British Columbia, included a newsprint and specialty paper mill with an annual capacity of 210,000 tonnes and a TMP facility. In the past, all of the wood chips produced by Finlay's two sawmills have been utilized in its TMP facility, and all of the pulp produced at the TMP facility has been consumed by Finlay's integrated pulp and paper processes.

Slocan's proportionate share of Finlay's total sales revenues for its newsprint and specialty paper products up to August 4, 1999 was $33.0 million ($66.5 million for a full year in 1998). Finlay's newsprint and specialty paper products by Finlay were sold during such periods primarily to the United States (approximately 43%), in Canada (approximately 31%) and Asia (approximately 26%).

COMPETITIVE POSITION

Each of the markets in which Slocan sells lumber, panel and pulp products is highly competitive with many major firms in each market. Slocan's competitive position is influenced by the availability, quality and cost of its raw materials, energy and labour, and its plant efficiencies and productivity in relation to its competitors. Slocan, like the rest of the Canadian forest products industry, competes in an international market and is therefore subject to the impact of currency fluctuations and global business conditions. Many of Slocan's lumber and panel

products also compete with substitutes for wooden building materials of various kinds. As well as competing with other CTMP producers, the Pulp Mill's CTMP products compete with softwood bleached kraft pulp in the tissue markets and hardwood bleached kraft and recycled pulp in the printing paper markets.

OTHER INVESTMENTS

FIBRECO EXPORT INC.

Fibreco Export is a wood chip exporting and marketing company owned by a number of sawmill companies that have operations in the interior of British Columbia. Fibreco Export was formed in 1977 for the purpose of exporting surplus wood chips produced by the owners' various sawmills. Until December 31, 1998, Slocan had a non-voting equity interest of approximately 29.7% in Fibreco Export (4.2% voting) held by the Company directly and by Tackama. Slocan now directly and indirectly holds a non-voting equity interest of approximately 22% (4.2% voting) in Fibreco Export.

Fibreco Export owns and operates a wood chip export facility in Vancouver harbour that has an annual capacity of between 900,000 and 1,000,000 BDUs. In 1998, throughput at the facility totalled 380,000 BDUs. Until December 31, 1998 Fibreco Export had a 20% joint venture interest in the Pulp Mill and supplied wood chips to the facility. See "Pulp and Paper Manufacturing - Pulp Mill Operations."

FINLAY FOREST INDUSTRIES INC.

Until August 4, 1999, Slocan and Donohue each owned 49.9% of Finlay. Slocan sold its interest in Finlay to Donohue for $80.0 million in cash.

CANTREE PLYWOOD CORPORATION

Cantree's plywood operations were permanently discontinued by its joint owners, Slocan and Riverside Forest Products Limited, a public British Columbia based forest products company, in November 1998.

FOREST FIBRE INCORPORATED

Slocan owns a 65% interest in Forest Fibre Incorporated, a British Columbia company, which purchases logs and operates a small portable whole log chipper, and acts as a reseller of logs, wood chips and other wood by-products.

ACCOUNTING TREATMENT

Slocan accounts for its investments in each of Cantree, Fibreco Export and Forest Fibre Incorporated using the equity method. Slocan accounts for its investment in Finlay on a proportionate consolidation basis. See Notes 2 and 5 to the Consolidated Financial Statements of the Company.

HUMAN RESOURCES

Slocan employs approximately 2500 people (including all of the approximately 145 employees at the Pulp Mill), of whom approximately 1430 are covered by collective agreements with the IWA - CANADA and of whom approximately 380 are covered by collective agreements with the Pulp, Paper and Woodworkers of Canada ("PPWC"). The collective agreements with the IWA were renewed for a three-year term that expires on June 30, 2000. The collective agreement with the PPWC was renewed for a five-year term that was to expire in June 1999, but has been extended to June, 2000. Slocan has not experienced any strikes since the industry-wide strike by the IWA in 1986, except for a six-week strike at the Uneeda Wood Products Division in 1997. The collective agreement with the IWA covering Uneeda was recently negotiated for a 3 year term expiring Feb. 1, 2003. All of the employees at the Pulp Mill and the PolarBoard Division are non-union. In addition, approximately 1,600 people who are employed by independent contractors, including truckers, perform services for Slocan on a regular basis.

As at March 7, 2000, the Company's senior management currently consists of ten executive officers, nine of whom are located at the head office in Richmond and one of whom is located in Fort Nelson, British Columbia. The Company manages the operations of Slocan Group and the Pulp Mill and its senior management is supported by divisional managers located at Slocan's operations throughout British Columbia and at the Pulp Mill. Slocan's management philosophy emphasizes short lines of communication to allow efficient decision-making.

ENVIRONMENT

Throughout 1999, Slocan's lumber, plywood, OSB and remanufacturing facilities were in compliance in all material respects with existing applicable environmental regulations. Slocan's personnel engage in a regular dialogue with regulatory agencies to address any environmental issues that may arise from time to time. Slocan is required to phase out all beehive burners at its operations and is currently taking steps to meet applicable legal requirements relating to the phase out of these burners.

On July 23, 1999, the Regional Waste Manager in the Kootenay Region of B.C. issued an order requiring Slocan to phase out its modified beehive burner in Slocan, B.C., as it currently exists, by December 31, 2000. Slocan estimates that it would require a capital expenditure of approximately $1.2 million to modify its beehive burner in order to comply with this order.

In its use of forest resources, Slocan's management is committed to fulfilling its obligations to the public and the communities in which it operates and to complying with federal and provincial regulations and its own environmental protection policies.

Every month the Pulp Mill submits reports in accordance with the effluent permits issued to it by the Waste Management Branch to the British Columbia Ministry of Environment, Lands and Parks, Waste Management Branch and to Environment Canada. These reports cover all the terms and conditions of the effluent permits issued by the Waste Management Branch.

As a result of not using chlorine or any chlorine compounds in its bleaching process, the Pulp Mill is not directly impacted by the more stringent regulations that have in recent years been announced in British Columbia for organic chloride levels. However, the mill is affected by legislation of the Government of Canada with respect to total suspended solids, and the mill is currently substantially in compliance with these requirements.

Throughout 1999, the Pulp Mill was in compliance in all material respects with applicable environmental regulations.

Provincial legislation governing contaminated sites came into effect on April 1, 1997. If a particular site exceeds prescribed levels of certain classes of substances, the site is determined to be a “contaminated site” under the legislation. If a site is determined to be contaminated, remediation will normally be required under government supervision. As current and past owners of mill sites, all forest products companies in British Columbia may face remediation costs. Slocan does not expect any material impact on its operations in complying with this legislation.

Until the disposition by Slocan of its interest in Finlay to Donohue in August 1999, Finlay was in substantial compliance in all material aspects with applicable environmental regulations. An alleged discharge of effluent by Finlay’s pulp operations in December 1996 led to charges under the Waste Management Act (British Columbia) and Fisheries Act (Canada). They were settled in 1999 without material costs.

CREDIT FACILITIES

During 1999, Slocan renegotiated the terms of its outstanding Senior Notes and its bank credit facilities and concluded new and amended agreements for these loans. During 1998, Slocan had been unable to meet certain financial ratio requirements under its prior credit agreements as a result of losses from operations incurred in the latter part of 1997 and the first half of 1998, coupled with the substantial decline in the value of the Canadian dollar relative to the US dollar (in which currency the Senior Notes are denominated).

In August 1999, Slocan repaid an aggregate of US $87.5 million of term debt from the proceeds of sale of its proportionate 49.9% interest in the Finlay operations to Donohue for $80 million in cash and from cash generated from operations. These payments retired the balance (US $37.5 million) of a term loan arranged in connection with the acquisition of the Mackenzie Operations in 1997 and the first US $50.0 million of Senior Notes which was due to mature in October 2000. As of March 7, 2000, Slocan had a principal amount of US $240 million outstanding under the Senior Notes and no term bank debt. The Senior Notes remaining outstanding and the applicable interest rates and maturities are as follows: US $50 million at 8.82%, due October 24, 2003; US $60 million at 8.99%, due October 24, 2005; US $30 million at 8.99%, due October 24, 2006; and US $100 million at 9.13%, due October 24, 2007. These interest rates may be reduced by 0.50% after six consecutive quarters of compliance with certain leverage and interest coverage ratios. The sale of the Finlay investment also eliminated $62.7 million of term debt of Finlay included on proportionate consolidation, as well as Slocan’s guarantee of US $7.5 million of this debt.

Slocan also arranged a new bank operating credit facility of $120 million committed for a three year term. Both this operating credit facility and the Senior Notes are secured by security interests over substantially all of Slocan’s assets. The terms of Slocan’s debt agreements contain restrictions on the granting of further security, the incurrence of additional debt, the application of proceeds from certain sales of assets and the payment of dividends and other distributions or investments.

The Senior Notes may be prepaid by Slocan at any time. If the yield on US Treasury obligations of comparable maturity at the time of prepayment plus 50 basis points (the “Formula Yield”) is less than the original interest rates on the Senior Notes, the prepayment amount must include a “make-whole” premium which would compensate the holders for the present value of the difference between that original interest rate on the Senior Notes which are prepaid and the Formula Yield.

It will be an event of default if, prior to October 2000 and, thereafter, Slocan may be required to offer to prepay the Senior Notes, if:

(a) either (i) any person or persons acting jointly or in concert shall own, in the aggregate, directly or indirectly, a majority of the voting power of the voting stock of the Company; or (ii) within any two year period, the Directors constituting the Board, including persons elected with the approval of at least 2/3 of the elected Board members, cease to constitute a majority of the Board for reasons other than ordinary course resignation or retirement, death or disability (in each case, a “Change in Control”); and

(b) after the Change in Control, the Senior Notes do not receive an “investment grade” rating from a nationally recognized rating agency.

After a Change in Control, any repayment upon default or any such offer to prepay Senior Notes must be made at par plus accrued interest plus, if applicable, a “make-whole” premium, calculated as outlined above. The Senior Notes received an investment grade rating of BBB at the time of issue.

CAPITAL EXPENDITURES AND INVESTMENTS

YEARS ENDED DECEMBER 31 (IN THOUSANDS OF DOLLARS)	1999	1998	1997	1996	1995
Acquisitions[1]	$ —	$ 1,935	$ 186,262	$ 13,000	$ —
Mill construction and improvements[2]	21,078	$ 10,255	50,799	50,461	178,770
Roads, bridges, timber and lands	16,714	12,902	25,215	26,572	14,544
Total	$ 37,792	$ 25,092	$ 262,276	$ 90,033	$ 193,314

Notes:

(1) The Company acquired a 49.9% interest in Finlay in 1994 (which was disposed of by Slocan in August 1999), Uneeda in 1996 and the Mackenzie Operations in 1997 and Fibreco Export's 20% interest in the Pulp Mill in 1998.

(2) Includes expenditures and improvements at the Pulp Mill and Slocan's proportionate share of Finlay's expenditures and improvements, as well as construction of the OSB plant at Fort Nelson, British Columbia.

In the third quarter of 1999, Slocan approved capital expenditures of approximately $60 million to further enhance the efficiency of its existing panel, lumber and pulp operations including: a 20% increase in the capacity of the Polarboard OSB facility; modernization of the Tackama plywood operation to increase capacity by 62.5% and its production of speciality products; modernization of the Mackenzie Operations sawmill to produce MSR lumber; the addition of bleaching capacity for the production of high bright grades of aspen pulp from the Pulp Mill; modernization of the Quesnel Division specialty sawmill and Plateau Division sawmill to improve lumber recoveries; and the installation of new equipment at the Uneeda Wood Products Division to enable the production of laminated posts and beams.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

YEARS ENDED DECEMBER 31[1] [2]	1999	1998	1997	1996	1995
Net sales	$ 1,085.8	$ 936.2	$ 945.9	$ 802.8	$ 862.0
Net earnings (loss)	108.4	(157.8)(5)	2.1	17.6	50.8
Total assets	788.6	906.9	1,254.4	978.8	976.4
Total long-term debt[3][4]	350.1	572.3	564.8	476.6	469.1
Net earnings (loss) per Common Share	2.84	(4.14)(5)	0.06	0.57	1.60

Notes:

(1) All figures expressed in millions of dollars except per share amounts.

(2) Includes Slocan's 49.9% proportionate share of results, assets and proportionate consolidation of indebtedness relating to the Finlay operation until August 4, 1999.

(3) Includes current portion of long term debt, limited recourse debt and capital lease obligations in all years.

(4) For the financial year ending December 31, 1998, long term debt of $502.2 million was reclassified as current liabilities due to non-compliance by Slocan of certain financial ratios under its Senior Notes and term debt facility pending renegotiation of amended terms of this indebtedness with its lenders. As a result of the completion of these renegotiations in August 1999, US $87.5 million was repaid and $346.4 million of current liabilities was reclassified as long-term debt for the financial year ending December 31, 1999. See "Credit Facilities".

(5) Includes unusual write downs of $182.6 million ($125.1 million after-tax or $3.28 per share) for impairment of the Pulp Mill's and Valemount Division's property, plant and equipment, and the write down of deferred foreign exchange losses on settlement of debt.

QUARTERLY DATA

FOR THE THREE MONTHS ENDED (UNAUDITED)[1][2]	1999				1998			
Net sales	241.9	$284.5	$307.8	$251.6	$223.2	$248.0	$242.8	$222.2
Net earnings(loss)	20.1	34.2	35.3	18.8	(136.2)(3)	4.5	(10.7)	(15.4)
Net earnings(loss) per Common Share	0.53	0.90	0.92	0.49	(3.57)(3)	0.12	(0.29)	(0.40)

Note:

(1) All figures expressed in millions of dollars except per share amounts.

(2) Includes Slocan's 49.9% proportionate share of results, assets and proportionate consolidation of indebtedness relating to the Finlay operation until August 4, 1999.

(3) Includes unusual write downs of $182.6 million ($125.1 million after-tax or $3.28 per share) for impairment of the Pulp Mill's and the Valemount Division's property, plant and equipment, and the write down of deferred foreign exchange losses on settlement of debt.

DIVIDENDS

The declaration and payment of dividends are at the discretion of the Company's directors. The Company's dividend policy is to pay a gradually increasing dividend over time, at a rate that can be sustained over a range of economic conditions. Slocan was not in compliance with the terms of its Senior Notes and bank agreements during a certain period of 1998 and 1999. During this time, the payment of dividends was restricted. See "Credit Facilities". In light of strongly improved results for the Company in 1999 and the renegotiation of Slocan's credit facilities, Slocan recommenced the payment of quarterly dividends in the fourth quarter of that year.

In each of the years set forth below, ending on December 31 in each year, the Company declared and paid cash dividends per Common Share as shown. Dividends paid in each year have been restated to take account of the two-for-one Common Share subdivision in May 1994.

1999	1998	1997	1996	1995
$ 0.075	$ 0.00	$ 0.30	$ 0.30	$ 0.30

SHARE CAPITAL

After giving effect to subdivisions in May 1990 and 1994, the Company had an authorized capital of 80,000,000 Common Shares and 10,000,000 Preferred shares. The special rights and restrictions attached to the Preferred shares were altered at the time of the 1990 subdivision to allow the directors of the company to fix the number and designation of each series of Preferred shares and, subject to certain limitations, define the special rights and restrictions attached to, each such series.

On February 28, 1995, the Company completed a substantial issuer bid for up to 8,000,000 Common Shares. The 8,000,000 repurchased Common Shares were cancelled and returned to the status of authorized but unissued shares.

On November 10, 1995, the Board of Directors adopted a Shareholder Rights Plan that was subsequently approved by the shareholders. Under the Plan, the directors approved the issue of one Right for each Common Share outstanding on that date. The Plan was approved by the shareholders of the Company at its annual general meeting held on April 26, 1997. The Plan was extended for a further three year term by a majority of Slocan's shareholders at its annual general meeting in June 1999. An additional Right will be issued for each Common Share issued thereafter, so long as the Rights remain outstanding. A Right becomes exerciseable only after the occurrence of certain specified events. Generally, if a person acquires or offers to acquire 20% or more of the Common Shares, a Right will become exerciseable and will entitle the holder of the Right (other than the acquiring person) to purchase an additional Common Share at a 50% discount from the then prevailing market price.

A Right is not triggered by a "permitted bid," which is a takeover bid made to all shareholders by way of takeover bid circular that complies with certain specified requirements. Such a bid must remain outstanding for 60 days unless the holders of more than 50% of the Common Shares held by shareholders independent of the bidder accept the bid or indicate to the Board of Directors that they support the bid. The Board of Directors may waive the application of the Shareholders Rights Plan or redeem the Rights at a nominal cost, in specified circumstances.

As at March 7, 2000, there were 38,316,406 Common Shares issued and outstanding. No preferred shares have been issued.

MARKET FOR SECURITIES

The Common Shares are listed on The Toronto Stock Exchange and trade under the symbol SFF.

DIRECTORS AND OFFICERS

Each of the persons whose name appears below is currently a director or officer of the Company. Each director holds office from the date of his election or appointment until the next Annual General Meeting of the Company or until he sooner ceases to hold office.

Name, Office Held and Municipality of Residence	Present Principal Occupation	Period Served as Director
Irving K. Barber Chairman and Chief Executive Officer and a Director Delta, B.C.	Officer of the Company	22 years
Stephen T. Bellringer[1][2] Director Vancouver, B.C.	President and Chief Executive Officer Canadian Hotel Income Properties (hospitality management)	1 year, 6 months
Kenneth P. Benson[1] Director Vancouver, B.C.	Retired (forestry executive)	1 year, 7 months
George A. Edgson[3] Director Delta, B.C.	Retired (forestry executive)	9 years
Brandt C. Louie[1][2][3] Director West Vancouver, B.C.	President of H.Y. Louie Co. Limited (food distribution)	5 years
Ronald D. Price Senior Vice-President, Chief Financial Officer, Secretary and a Director West Vancouver, B.C.	Officer of the Company	22 years
James A. Shepherd President, Chief Operating Officer and a Director Surrey, B.C.	Officer of the Company	1 year, 2 months
John M. Tennant[2][3] Director Vancouver, B.C.	President of Ferncliff Estates Ltd. (development company)	1 year, 8 months
E. Terrence Upgaard Vice-President, Sales and Marketing and a Director West Vancouver, B.C.	Officer of the Company	11 years
John Weatherall Director Toronto, Ont.	Chairman Emeritis, T.D. Asset Management Inc.	9 years
James I. Barber Vice President and Regional Manager - Operations Fort Nelson, B.C.	Officer of the Company	N/A
Daniel H. Breck Vice-President, Fibreco Pulp Division Surrey, B.C.	Officer of the Company	N/A
Donald B. Clutterham Vice-President and Regional Manager - Operations Surrey, B.C.	Officer of the Company	N/A
Terry D. Hodgins Vice-President and Financial Officer West Vancouver, B.C.	Officer of the Company	N/A
Julius J. Juhasz Vice-President, Forest Resources Victoria, B.C.	Officer of the Company	N/A
Micheal G. Madrigga Senior Vice-President, Corporate Development Delta, B.C.	Officer of the Company	N/A

Notes:
(1) Member of the audit committee.
(2) Member of the compensation committee.
(3) Member of the nominating and governance committee.
(4) The Company does not have an executive committee.

As to those officers who have held more than one position with the Company during the last five years, their first such positions were as follows: Micheal G. Madrigga was Vice-President and Regional Manager-Operations and Donald B. Clutterham was Vice-President of Northern Operations.

The principal occupations of each of the directors of the Company for the five preceding years have been as shown above except for: Stephen T. Bellringer, who prior to September 1997 was President of B.C. Gas Inc. and prior to December, 1999 was Chief Executive Officer of Orca Bay Sports and Entertainment; Kenneth P. Benson, who prior to 1996 was the Chairman and Chief Executive Officer for both B.C. Forest Products Ltd. and Finlay Forest Industries Inc., as well as Chairman of Fletcher Challenge Canada Ltd.; George A. Edgson, who prior to March 1996 was Senior Vice-President of Operations of the Company; James A. Shepherd, who prior to February 1999, was President and Chief Operating Officer of Crestbrook Forest Industries Ltd. and President of Finlay Forest Industries Limited; John M. Tennant, who prior to January 1997 was a partner at the law firm of Lawson Lundell Lawson & McIntosh; and John Weatherall, who prior to February 1996 was Vice-President, Investments, Corporate and Investment Banking Group with a Canadian Chartered bank.

As of March 7, 2000, the directors and senior officers of the Company, as a group, beneficially owned directly or indirectly or exercised control or direction over 5,137,489 Common Shares (13.4%).

ADDITIONAL INFORMATION

Reference is made to the sections of this Annual Report for 1998 entitled "Management's Discussion and Analysis of Financial Results" and "Consolidated Financial Statements" that are by this reference incorporated herein.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities, approval of the Company's proposed shareholder rights plan, is contained in the information circular for the Annual General Meeting of the Company held on June 25, 1999 and is contained in the information circular for the Annual General Meeting to be held May 5, 2000. Additional financial information is provided in the Company's comparative financial statements and management's discussion and analysis for the year ended December 31, 1999, which are contained in this Annual Report for 1999.

In addition, the Company will provide to any person, upon request to the Secretary:

(a) when the Company's securities are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus that has been filed in respect of such distribution:
   (i) one copy of this annual information form together with a copy of any document, or the pertinent pages of any document, incorporated by reference in this annual information form;
   (ii) one copy of the Company's comparative financial statements for the year ended December 31, 1999 together with the accompanying report of the auditor and one copy of any interim financial statements of the Company subsequent to December 31, 1999;
   (iii) one copy of the Company's information circular in respect of its annual general meeting to be held May 5, 2000; or
   (iv) one copy of any other documents that are incorporated by reference into a preliminary short form prospectus or a short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any other documents referred to in (a) (i), (ii) or (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

Slocan Forest Products Ltd. (the "Company") directly, and in partnership with or through subsidiary companies (collectively "Slocan"), manufactures and markets dimension lumber, specialty wood products, panel products, wood chips and chemi-thermo mechanical pulp ("CTMP"), which are sold throughout the world. The principal markets for these products are North America, Asia and Europe.

Lumber, plywood and wood chips are produced at Slocan's ten sawmills and one plywood facility throughout the interior of British Columbia. Slocan also produces oriented strand board ("OSB") at a facility at Fort Nelson, British Columbia and bleached and unbleached softwood and hardwood CTMP at the Fibreco pulp mill (the "Pulp Mill") located in Taylor, British Columbia.

Slocan remanufactures lumber into value added and engineered wood products at its custom remanufacturing facility at Chilliwack, British Columbia and at its specialty mill at Quesnel, British Columbia.

In August 1999, Slocan sold its 49.9 percent share interest in Finlay Forest Industries Inc. ("Finlay") to Donohue Inc. ("Donohue") for $80.0 million in cash. Finlay produces lumber, wood chips, newsprint and specialty papers at an integrated facility at Mackenzie, British Columbia. Unless stated otherwise, the disclosure in this Management's Discussion and Analysis of Financial Results includes the Company's 49.9 percent proportionate interest in Finlay's assets and operations until August 4, 1999.

SIGNIFICANT EVENTS

During 1999 and 1998 certain significant transactions and events occurred which affected Slocan's operations, financial position and corporate structure.

SALE OF FINLAY

On August 4, 1999, Slocan completed the sale of its proportionate 49.9 percent share interest in Finlay to Donohue, which owned an equal 49.9 percent interest in those operations, for $80 million in cash. In addition to the cash proceeds, this transaction resulted in the elimination of $62.7 million of term indebtedness from Slocan's balance sheet at the time of the disposition, representing Slocan's proportionate consolidation of Finlay's term indebtedness. Slocan's proportionate share of Finlay's assets was also eliminated.

FINANCING AGREEMENTS

As a result of losses in 1998 and 1997 and the negative impact of the decline in those periods in the value of the Canadian dollar on US dollar denominated debt, Slocan was not in compliance with its permitted debt to total capitalization ratio under its senior notes or with the interest coverage ratio under its term debt facility during the period from July, 1998 to August, 1999. Generally accepted accounting principles require that all long-term debt that is subject to any such default which would permit a lender to accelerate the repayment of a borrower's indebtedness be reclassified on the borrower's balance sheet as current indebtedness until definitive agreements waiving or amending the default are concluded. Accordingly, in Slocan's financial statements for the year ended December 31, 1998, all of Slocan's then $502.2 million of long-term indebtedness in default was classified as a current liability.

In August 1999, Slocan completed the renegotiation and refinancing of its senior notes and its term bank indebtedness. As part of the agreements, Slocan repaid an aggregate of US $87.5 million of term debt from proceeds of the sale of its proportionate interest in the Finlay operations to Donohue and from cash generated from operations. These payments retired the balance of a term loan arranged in connection with the acquisition of the Mackenzie Division in 1997 and the first series of senior notes which was due to mature in October, 2000. Slocan also arranged a new bank operating facility of $120 million committed for a three year term. As a result of the successful completion of the refinancing, effective August, 1999 the outstanding indebtedness under the senior notes was reclassified as long-term indebtedness in Slocan's financial statements.

TRANSFERS AND ACQUISITIONS

Effective December 31, 1998, Slocan reorganized its interest in the Pulp Mill by obtaining Fibreco Export Inc.'s 20 percent joint venture interest in the Pulp Mill in exchange for a 7.9 percent interest in the Company's investment in Fibreco Export Inc., giving Slocan a 100 percent ownership interest in the Pulp Mill facility.

In November 1998, Slocan, together with Riverside Forest Products Ltd., the joint owners of Cantree Plywood Corporation, permanently discontinued operation of the Cantree plywood facility in Vancouver, British Columbia.

ASSET WRITE-DOWNS

During the last quarter of 1998, Slocan undertook an asset impairment review of the Pulp Mill at Taylor B.C. and its sawmill and logging operations at Valemount, B.C. The Company had continuing losses from these operations and concluded that it would not fully recover its investment in the related capital assets of either operation. As a result, on December 31, 1998, the Company wrote off the carrying value of the Pulp Mill of $125.2 million and reduced the carrying value of its Valemount sawmill and logging assets by $8.3 million.

SENIOR NOTES

As a result of fluctations in the Canadian dollar against the US dollar in 1999 and 1998 and the requirement to state foreign

denominated debt in the Company's consolidated balance sheet at the year-end exchange rate, the carrying value of the Company's US senior notes payable decreased by $21.6 million from 1998 to 1999 and increased by $28.4 million from 1997 to 1998. This deferred foreign exchange gain or loss, which fluctuates with the change in exchange rates, is normally amortized over the term of each of the notes. However, while the Company was in default of its ratio requirements and was renegotiating its long-term debt as referred to under "Financing Agreements" above, there was a requirement, for accounting purposes, to reflect all the senior notes and bank term debt as current liabilities. Accordingly, in 1999, the deferred foreign exchange gain to the date of concluding the new financing agreements was taken into income and, in 1998, related deferred financing costs of $2.1 million and unamortized deferred foreign exchange loss of $47.0 million were written off. Foreign exchange gains or losses subsequent to the completion of the refinancing are being amortized over the term of each of the notes in accordance with the Company's accounting policies. The actual gain or loss will only be realized at the time of repayment of each of the notes.

COST REDUCTION PROGRAMS

Slocan implemented a manufacturing cost reduction program at the beginning of 1998 which was designed to complement its strategic mill capital expenditure programs in reducing costs and increasing productivity and efficiency at its manufacturing facilities. The cost reduction program produced savings and productivity improvements of approximately $23.0 million in 1998 and a further $6.0 million in 1999. Management expects that these savings and productivity improvements can be sustained in the future.

The Company also focused on a program to reduce its annual fibre costs. Since commencing this program in 1998, the Company has reduced log costs by $28 million on an annualized basis. In addition, stumpage rate reductions through 1998 and 1999 have resulted in a further $32 million in annual savings. Stumpage rates are driven by lumber selling prices, which will determine future costs to the company.

COMPARISON OF 1999 AND 1998 OPERATING RESULTS

NET EARNINGS

Slocan had consolidated net earnings after unusual items of $108.4 million for 1999 compared with a net loss of $157.8 million for 1998. Net earnings per share for 1999 were $2.84 ($2.72 on a fully diluted basis, assuming the exercise of outstanding stock options) compared with a net loss per share of $4.14 for 1998. Net earnings for 1999 before unusual items were $110.3 million or $2.89 per share compared with a net loss for 1998 before unusual items of $32.7 million or $0.86 per share.

Results of operations in 1999 were affected by unusual items which included the disposition of the Company's 49.9 percent share interest in Finlay for a loss of $11.0 million and the conclusion of its refinancing in August which resulted in a foreign exchange gain on its US term debt of $10.3 million. Results of operations in 1998 were impacted by unusual charges comprised of asset writedowns of $133.5 million and the write-off of deferred financial costs and deferred exchange loss of $49.1 million relating to the reclassification of long-term debt to current liabilities. The 1998 results before unusual items were also affected by the closure of the Cantree plywood facility in November 1998 and by a strike at a domestic pulp mill which purchases wood chips from the Mackenzie Division.

Net sales in 1999 were $1.1 billion, up 16 percent from $936.2 million in 1998. Net sales were positively affected in 1999 by higher selling prices for lumber and panel products. The average value of the Canadian dollar relative to the US dollar remained virtually unchanged from 1998 to 1999. However, forward foreign exchange contracts reduced sales recoveries by approximately $5.2 million in 1999 as compared to $33.0 in 1998.

SOLID WOOD OPERATIONS

LUMBER

Lumber shipments decreased by 2.3 percent from 1,459 million board feet in 1998 to 1,426 million board feet in 1999. This decrease was a result of the sale of Slocan's interest in Finlay in August 1999. Lumber selling prices were higher in 1999 primarily as a result of the improvement in demand in both North American and the Asian markets. The effects of these higher lumber prices were further strengthened by the favourable impact of the continuation of Slocan's manufacturing cost reduction programs undertaken at its lumber production facilities in 1998 and 1999, but were partially offset by higher average stumpage costs in 1999 resulting from the higher selling prices.

The annual rate of U.S. housing starts in 1999 increased to 1.67 million, 3 percent over 1998 levels. Random length SPF lumber prices averaged US $343 per thousand board feet ("mfbm") for 1999, up 19 percent from the 1998 average of US $288 per mfbm. The higher average prices for random length SPF in 1999 reflect the combined effects of stronger consumption in North American markets, and restrictions on supply in the United States under the Canada/U.S. Softwood Lumber Agreement, as well as a recovery in Asian markets. Wood chip revenue increased by 3.5 percent to $68.1 million as a result of an increase in prices, offset by a 1 percent decrease in volume.

PANEL PRODUCTS

Plywood prices increased from 1998 levels as a result of higher Canadian housing starts and improved offshore demand, particularly in Asia and Europe. OSB prices averaged 31 percent above 1998 due to stronger demand and the increased application of OSB as a lower cost substitute for sheathing plywood.

PULP AND PAPER OPERATIONS

Net sales from the Pulp Mill in 1999 were $66.4 million, 13 percent higher than the $58.6 million in 1998. Prices for CTMP for 1999 averaged approximately 10% higher than in 1998. To address the weakness in the demand for pulp (as compared to historical pulp demand), the Pulp Mill curtailed its overall production from capacity by about 7 percent in early 1999 as compared to 18 percent in 1998.

Newsprint and specialty paper revenues in 1999 were down approximately 50 percent from 1998 due to reduced volumes and 15 percent lower average prices. The Finlay operations were sold to Donohue in August 1999.

EARNINGS FROM OPERATIONS

In 1999, Slocan had earnings from operations of $230.6 million compared to $13.9 million in 1998. The increase in earnings from operations was caused primarily by higher product prices and the combined favourable impact of Slocan's manufacturing and logging cost reduction programs which were partially offset by higher average stumpage costs in 1999 over 1998 as a result of higher lumber prices. Results from operations in 1998 were negatively affected by adverse market conditions as well as the reduction in after-tax earnings of $1.6 million due to a strike at a local pulp mill which resulted in lower wood chip revenue.

Earnings from operations were also affected in 1999 and 1998 by the conversion at forward foreign exchange rates of a portion of US dollar sales which were sold forward under hedging transactions. Slocan has had a policy of hedging its US dollar denominated revenues by forward foreign exchange contracts for approximately 75 percent of expected U.S. sales. With the substantial decline of the exchange rate for Canadian dollars in 1998 (from C$1.00 to US $0.699 at December 31, 1997 to US $0.652 at December 31, 1998: and to US $0.693 at December 31, 1999), coupled with lower U.S. revenue due to curtailed lumber exports and lower lumber prices, these contracts reduced revenues by approximately $33.0 million in 1998 and $5.2 million in 1999.

The amount of these contracts declined in 1999 to about one-third the level that was in place in 1998. The Company has no contracts extending beyond 1999.

SOLID WOOD OPERATIONS

LUMBER

The sawmills took total curtailments of from three and one-half to five weeks in 1999 and five weeks in 1998 and the Slocan and Tackama mills operated on a four day week basis in the last half of 1998, in order to balance lumber production with U.S. quota volumes.

Other than this downtime, all of Slocan's sawmill facilities operated two eight hour shifts per day in 1999 and throughout 1998 except for Tackama which operated one shift per day in the last two months of 1999 and Valemount which operated one shift per day throughout 1999 and one and one-half shifts per day in the second half of 1998.

PANEL PRODUCTS

The Tackama plywood mill operated two and one-half eight hour shifts per day in 1999 and two eight hour shifts per day in 1998. The OSB plant operated two twelve hour shifts per day during 1999 and 1998.

PULP AND PAPER OPERATIONS

Slocan's pulp and paper operations, comprised of its 100 percent interest in the Pulp Mill (effective as of December 31, 1998) and its 49.9 percent interest in the Finlay operations (until August 4, 1999), had earnings from operations in 1999 of $7.7 million compared with a loss from operations of $1.1 million for 1998. The Pulp Mill had earnings from operations in 1999 of $4.8 million compared with a $14.1 million loss for 1998, whereas the paper operations had earnings from operations of $2.9 million in 1999 compared with $13.0 million for 1998. The improved pulp results were primarily due to increased production, lower costs and higher average selling prices for pulp in 1999 compared to 1998. The lower paper earnings were due to a drop in prices for newsprint and specialty papers.

DIVIDENDS

As a result of economic and world market conditions and to preserve cash, the directors of the Company decided to suspend the payment of the regular quarterly dividends on the Company's Common Shares throughout 1998. Under the terms of the Company's term and operating facilities and senior notes, the Company was also restricted from paying dividends while in default. In light of strongly improved results for Slocan in 1999 and the renegotiation of its indebtedness under its senior notes and bank facilities, Slocan commenced the payment of quarterly dividends in the fourth quarter, paying a total of $2.9 million in dividends to shareholders or $0.075 per share.

FINANCIAL POSITION

Cash flow from operations, excluding reforestation expenditures, before change in non-cash working capital items, increased to $252.4 million in 1999 from $40.6 million in 1998. This increase was a direct result of higher sales prices for the Company's principal products, which were partially offset by lower prices for paper products and higher average stumpage costs. The increase in non-cash working capital items of $36.6 million offsetting the reforestation expenditures of $15.5 million, increased cash flow from operations for 1999 to $273.5 million. This amount compares with cash flow from operations of $100.2 million in 1998. The lower level of non-cash working capital in 1999 is primarily attributable to a reduction in inventories and an increase in accounts payable.

In 1999, as a result of the strengthening of the Canadian dollar against the US dollar and the conversion of debt denominated in US dollars to Canadian dollars at the year-end rate, Slocan's long-term debt decreased by $21.6 million. Before giving effect to the reclassification of its long-term debt as a current liability as described under "Financing Agreements" above, Slocan's long-term debt increased by $32.6 million in 1998, chiefly due to the weakening of the Canadian dollar.

Total principal repayments on long-term debt during 1999 amounted to $133.8 million compared with $25.2 million during 1998. At December 31, 1999, after successful renegotiation of its senior notes and bank agreements and reclassification of indebtedness as long term, Slocan's long-term debt to equity ratio was 1.68 to 1 compared with 5.59 to 1 at the end of 1998. The decrease in the Company's leverage in 1999 was a result of the combination of the lower amount of debt after repayments made from the proceeds of the sale of Slocan's interest in the Finlay operations, the elimination of the Company's portion of Finlay's debt and the increase in shareholders' equity resulting from strongly improved earnings in 1999.

Prior to the disposition of its interest in Finlay, Slocan's total consolidated long-term debt at December 31, 1998 included $64.3 million of debt related to the Finlay operation. Recourse on this debt (except as described below) was limited to the assets comprising the Finlay operation and accordingly was classified in Slocan's Consolidated Financial Statements as limited recourse debt. Slocan had given a US $7.5 million limited guarantee in respect of the Finlay debt. As a result of the disposition of Finlay, the guarantee was released and all of this debt was eliminated from Slocan's consolidated financial statements.

Total interest costs, including the amortization of deferred foreign exchange gains and losses, decreased in 1999 to $45.5 million from $64.6 million in 1998. This decrease reflects the lower principal amount of debt outstanding and the lower cost in Canadian dollars of interest paid on U.S. denominated debt as well as lower interest rates on bank indebtedness, with the Canadian prime rate averaging 6.43 percent in 1999 as compared to 6.66 percent in 1998.

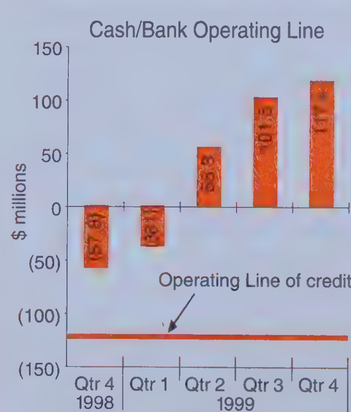
The Company paid common share dividends of $2.9 million in 1999 as compared to no dividend payments in 1998. Fixed asset additions, including roads, totalled $37.8 million, $14.6 million higher than in 1998.

All of the above activities and expenditures resulted in a net cash inflow for 1999 of $169.1 million compared with a net cash inflow of $54.9 million for 1998. At the end of 1999, the Company had cash and term deposits of $117.4 million compared with current bank indebtedness of $57.8 million at the end of 1998.

As noted under "Financing Agreements" above, at December 31, 1998 the Company was in breach of certain financial ratio requirements under its senior notes and bank agreements. This had the effect of reclassifying both the senior notes payable and the bank term loan as current liabilities resulting in negative working capital of $403.7 million. As a result of the successful conclusion of the definitive agreements with the lenders waiving the defaults and amending the terms of the notes and the bank debt, $346.4 million, net of the US $87.5 million of debt repaid, is again reflected as long-term debt for the 1999 fiscal year. The ratio of current assets to current liabilities, excluding the current portion of long-term debt after giving effect to the reclassification of the senior notes and the long-term bank indebtedness at December 31, 1999, was 2.63 to 1 compared with 1.52 to 1 at the same date in 1998.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1999, Slocan had a principal amount of US $240.0 million outstanding under its senior notes and no term bank debt. The amounts outstanding at December 31, 1998 were US $290.0 million of notes, US $37.5 million under its term bank debt facility and $57.8 million under its operating facility. During 1999, Slocan repaid an aggregate of US $87.5 million of term debt from the proceeds of sale of its proportionate 49.9% interest in Finlay to Donohue and from cash generated from operations. These payments retired the balance (US $37.5 million) of the bank term loans and a US $50.0 million series of senior notes which was due to mature in October, 2000. Slocan also arranged a new bank operating facility of $120 million committed for three years, under which no amount was drawn as of December 31, 1999. The senior notes and the operating facility are secured by security interests over substantially all of Slocan's assets.



Slocan expects to fund its year 2000 capital and operating cash requirements with cash generated from operations and

funds from its bank credit facilities. The Company commenced a number of major capital projects in late 1999, some of which which were completed in 1999 resulting in capital expenditures in 1999 being $14.6 million higher than 1998. The Company also announced a number of capital projects in late 1999 which will be completed in 2000. The total amount of the announced short-payback capital projects which are expected to be completed by the end of the third quarter of 2000 is approximately $60.0 million, of which $16.8 million was expended in 1999.

RISKS AND UNCERTAINTIES

Operating results of Slocan are significantly affected by fluctuations in the selling prices of lumber, plywood, OSB, wood chips and pulp, and by fluctuations in interest rates and currency exchange rates. Product selling prices are, in turn, dependent on a number of factors including the general level of economic activity in the world, residential and other construction and renovation activities, as well as the demand for wood, panel and pulp products. Slocan maintains the majority of its term debt in fixed rate US dollar borrowings, and a large portion of its sales are in US dollars, which partially mitigates the impact of changes in interest rates on costs and foreign exchange fluctuations on revenues.

As a general policy, Slocan has restricted its hedging and derivative transactions to forward sales of US dollars and of random length SPF lumber. These activities have been designed to partially hedge Slocan's exposure to US dollar revenues in excess of its US dollar cash requirements and hedge against decreases in lumber prices. For 1999, Slocan had a US dollar hedged position equivalent to approximately 32 percent (as compared to 90 percent in 1998) of its US dollar revenues and as a result had lower revenue of approximately $5.2 million ($33.0 million in 1998) from delivering on these contracts. The Company currently does not have a US dollar hedged position.

Based upon the anticipated level of its operations in 2000, prevailing market prices and the changes in prices set out below, the sensitivities of Slocan's earnings from operations to price changes in its principal products and interest and foreign exchange rate changes are indicated in the "Sensitivity" table set out on this page.

In addition to price volatility, there are also risks and uncertainties for Slocan which arise as result of its sales of wood products into the United States. Currently, shipments to the United States from British Columbia are subject to quotas under a five year Canada/U.S. Softwood Lumber Agreement ending March, 2001 which imposes duties of US $52.93 per mfbm on the first 2.4 percent of volume over an individual company's quota-free volume, US $105.84 per mfbm on the next 2.4 percent of volume over the quota and US $146.25 on any excess beyond this volume. Slocan curtailed production at its sawmills for approximately three and one-half weeks in 1999 (compared to

Sensitivity[6]	Change in Unit Price	Annual Change in Operating Earnings (millions)
Lumber[1]	US $ 10	$ 15.2
Plywood[2]	CDN $ 10	$ 2.5
OSB[2]	US $ 10	$ 6.1
Wood Chips[3]	CDN $ 5	$ 3.0
Pulp[4]	US $ 10	$ 3.0
Interest[5]	1%	$ 0.0
Exchange Rates (change of $0.01 Cdn. relative to US $1.00)	$ 0.01	$ 6.0

(1) Thousand feet board measure (mfbm)
(2) Thousand square feet (3/8" basis)
(3) Bone dry unit (BDU)
(4) Air-dried metric tonne (ADMt)
(5) All of Slocan's term indebtedness is at a fixed rate of interest and no borrowings are anticipated under its operating facility.
(6) Actual sensitivities will vary if volumes sold deviate significantly from anticipated levels.

five weeks in 1998) because of a combination of the restrictions under this Agreement and increased lumber production resulting from continued improved productivity at its sawmill operations. Slocan expects to ship its full duty-free and low-fee volumes in the first quarter of 2000 as permitted by the Softwood Lumber Agreement. In order to limit the impact of the Agreement, Slocan plans to continue to emphasize the production of value-added and engineered wood products which are exempt under the Agreement through, for example, Uneeda, its custom lumber remanufacturing facility, and to develop higher sales to domestic and non-United States export markets.

Slocan is exposed to credit risk on accounts receivable from customers. Its customers are mainly in the solid wood products, pulp and paper businesses. To manage risk, Slocan has credit policies which include the analysis of the financial position of its customers and the regular review of their credit limits. In certain offshore markets, Slocan requires bank letters of credit or utilizes credit insurance.

Slocan continues to be exposed to risks arising out of the "Year 2000 Issue". The Year 2000 Issue arose because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. Although the change to year 2000 related dates has occurred and Slocan did not encounter any problems on the rollover, it is not possible to be certain that all aspects of the Year 2000 Issue which could affect the Company, including those related to the efforts of customers, suppliers or other third parties, have been fully resolved.

The aggregate cost of replacements and modifications

made by Slocan to address the Year 2000 Issue did not exceed $2 million between 1998 and the end of 1999. Such costs included some costs which would otherwise have been incurred in the normal course of updating Slocan's accounting and operating systems. Operating costs relating to system modifications or upgrades are being or have been expensed as incurred and expenditures for new systems are or have been capitalized.

Other risks and uncertainties facing Slocan, as well as other forest product companies in North America and Europe, include pressures from special interest groups and a changing regulatory environment. These pressures have resulted in new resource and environmental regulations, government-sponsored initiatives to study new proposals relating to land use and resources, expropriation and compensation, requirements to reduce or eliminate certain types of effluent and emissions, changes in market demand for certain products and restrictions on operating activities. Some parts of British Columbia in which Slocan conducts its logging operations are viewed by interest groups and local residents as being environmentally sensitive areas to which road building and deactivation, harvesting and related activities can be potentially harmful or contrary to their interests. Although Slocan undertakes intensive planning under applicable legislation and government land use strategies to ensure any adverse environmental effects are minimized and interested parties' concerns are appropriately addressed, Slocan is occasionally met with protests and activities of interest groups and residents designed to interfere with its activities. In recent years, these activities involved road blockades in the Slocan Valley which necessitated that Slocan resort to legal proceedings to enforce its logging rights. Such situations can cause delays in access to timber and can increase costs.

The Forest Practices Code ("Code") establishes mandatory requirements for forest practices in British Columbia and sets enforcement and penalty provisions and specifies independent audit requirements and appeal mechanisms. The British Columbia Government has stated that any reduction in wood supply due to the implementation of the Code will not exceed 6 percent of the province's total wood supply, although it is expected that there will be variations to the 6 percent on an area by area basis. Contraventions of the Code can occur notwithstanding the planning and preventative measures undertaken by forest companies in British Columbia and remedial action and penalties can be imposed even in cases where a forest company is found not to be at fault. Compliance with the Code has increased operating costs and administrative requirements for companies such as Slocan and has resulted in delays in certain of its activities, both of which increase costs of operation. The forest industry in British Columbia estimated that compliance with the Code and other regulatory requirements increased average interior logging costs by approximately $12 per cubic metre from 1992 to 1997. In recognition of the extent and impact of these costs, the provincial government reduced average stumpage rates effective June 1, 1998 by an average of $3.50 per cubic metre for forest companies operating in the interior of British Columbia. The provincial government also changed the manner in which stumpage charges are determined by including market wood chip prices as well as lumber prices in its calculation of applicable stumpage rates, which is designed to better reflect the prevailing markets for British Columbia's wood products. The provincial government has also sought to reduce the administrative burdens of the Code on forest tenure holders in British Columbia and is continuing to review further modifications to the Code to provide a lower cost but a more efficient means of meeting the Code's objective for the sustainable use of forest resources.

In addition to the requirements of the Code, the Ministry of Forests conducts periodic detailed reviews of the timber supply in all areas of British Columbia to determine new levels of allowable annual cut (AAC) to be in effect for specified 5-year periods, together with the development of regional land use plans and strategies. There has been no material reduction in the availability of wood to Slocan in any of its operating areas as a result of these processes. In total, the impact of these reviews on the combined AAC for all of the areas managed by Slocan has been a reduction of less than 2 percent, which in 1998 and 1999 was made up through purchases from outside sources. A land use plan for the Kootenay-Boundary region of the province, in which Slocan's Radium and Slocan operations are located, has been issued by the government. As a result of concerns raised by the forest industry, including Slocan, the government is reviewing the application of the provisions of the plan which may or may not result in a reduction in the overall AAC in the region.

Aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia including areas where Slocan's forest tenures and operations are situated. Provincial government policy requires that forest management and operating plans take into account and not infringe on aboriginal rights and title, and provides for consultation with aboriginal groups. Increasingly, aboriginal groups have sought to restrict the Crown from granting or replacing forest tenures and other operating authorizations, without their consent, on lands claimed by them.

A decision of the Supreme Court of Canada in December 1997 confirming the continued existence of aboriginal title and rights in areas of British Columbia which are not subject to treaties has both resulted in increased demands from aboriginal groups and uncertainties as to the status of competing property rights, including existing forestry and other resource rights granted by the government. Pending resolution of these demands and uncertainties, Slocan expects that the process of obtaining government authorizations for its operations, and related consultations with aboriginal groups, may be slowed.

However, Slocan believes that cooperative arrangements, including employment opportunities and business relationships based on mutually beneficial, sound economic principles, can facilitate these processes. See also the "Timber Resources-Aboriginal Issues" section of the Annual Information Form included in this Annual Report.

OUTLOOK

The outlook for Slocan's operations in 2000 is positive although there is expected to be continued volatility in the pricing of its products. For 1999, prices of all of the Company's products except newsprint and specialty paper averaged higher than in 1998.

In the first quarter of 2000, North American lumber prices were only approximately 3 percent lower than the strong average prices achieved during 1999, and Slocan expects lumber prices to generally remain firm at least through the building season in North America in the first half of 2000. Plywood prices in North America, which were firm early in the first quarter of 2000, averaging 5 percent lower than 1999, are expected to remain steady to marginally lower in 2000. OSB prices were significantly improved in 1999 compared with 1998 although they tailed off towards the end of the year. These prices have improved in early 2000 averaging only 5 percent lower than 1999 prices and are expected to remain relatively firm all year.

Slocan expects that the demand for its lumber and panel products in Asian markets, particularly Japan, will continue to improve in 2000. Wood chip prices are expected to move higher through 2000 with an anticipated increase in kraft pulp demand and prices during the year.

Costs of raw materials in 2000 are expected to be about 3 percent higher than 1999 levels as a result of increased stumpage costs due to higher selling prices in 1999 and 2000 and expected higher purchased wood costs due to greater demand for logs. Manufacturing costs of wood products on a per unit basis should be lower for 2000 than those for 1999, since lumber recovery improvements are expected to more than offset any normal cost increases.

Slocan's operations have not been significantly affected by the increasing shortages of timber affecting North America generally, due in part to its past acquisitions and concentration on timber harvesting rights, as well as its success in obtaining complementary private supplies of timber. Slocan has been able to maintain its level of operations without interruption or reduction due to supply constraints in 1999 and no change is expected in 2000.

World markets for pulp and paper strengthened throughout 1999. Hardwood kraft was the first market pulp to move from an oversupply position to one of tight supply and rapidly increasing prices. Softwood kraft was slower to respond to improving market conditions, but passed hardwood kraft both in price movement and tightness of supply by the end of the year. The strength in the markets was due to a combination of continued strong economic growth in the US and in Europe and improving economic conditions in Asia. The major improvement in demand for market pulp was due to increased imports by China and Korea, which represented close to half of the year over year increase in pulp consumption. Prices for Northern Bleached Softwood Kraft increased from US $460/ADMT at the end of 1998 to US $600 in the fourth quarter of 1999. Hardwood kraft prices increased from about US $450 to US $580/ADMT in the same period.

CTMP prices followed those of kraft pulp. The strong demand for hardwood kraft in the year pulled the price for aspen CTMP up from US $350 at the beginning of the year to US $520 by the end of 1999. Demand for softwood CTMP increased in 1999, however, the continued oversupply of capacity has kept prices lower compared to aspen CTMP. In spite of this, prices for softwood CTMP increased by US $90, from US $330 to US $420 for 70 brightness grades. The demand and prices for softwood CTMP are expected to continue to increase, but lag that of aspen CTMP for the foreseeable future.

Demand for market pulp is expected to remain strong for the next 2 to 3 years, before stronger prices bring on new capacity. Prices for all grades are expected to increase by at least US $100 during 2000. This forecast appears conservative as most prices have already increased by US $40 in the first quarter of 2000 and additional price increases of US $40 have been announced by many of the major producers for April.

Slocan expects the Canadian dollar to strengthen relative to the US dollar during 2000 which would have some negative impact on its earnings. Early in the first quarter of 2000, the average exchange rate of the Canadian dollar in US dollars was approximately 2.4 percent higher than the average rate of $0.673 in 1999.

In March 1999, Slocan applied to the Ministry of Forests to amend a pulpwood agreement held by it which covers up to 500,000 cubic metres of annual timber harvest and requires the development of additional pulp production capacity in the Fort St. John area. Slocan believes that additional pulp capacity will not be economically feasible in the foreseeable future, while additional OSB capacity has economic merits. Slocan therefore proposed to amend the agreement to allow for the harvesting of this timber in connection with a new OSB facility. Slocan expects to receive a favourable reply from the Ministry of Forests on its proposed amendments during 2000. If Slocan decides to proceed with a new facility, it anticipates that the facility will be similar in design and capacity to its existing PolarBoard OSB plant in Fort Nelson.

The Company's financial condition has continued to improve in the first quarter of 2000.

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Shareholders of Slocan Forest Products Ltd.

We have audited the consolidated balance sheets of Slocan Forest Products Ltd. as at December 31, 1999 and 1998 and the consolidated statements of earnings (loss), retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Vancouver, BC
February 10, 2000

RESPONSIBILITY OF MANAGEMENT

The management of Slocan Forest Products Ltd. is responsible for the preparation as well as the integrity of the accompanying consolidated financial statements and all related financial data contained in the Annual Statutory Report. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, and necessarily include amounts which represent the best estimates and judgements of management. The Company has developed and maintains a system of internal accounting control designed to provide reasonable assurance that assets are safe-guarded and that transactions are executed in accordance with management's authorizations.

The consolidated financial statements have been examined by the Company's auditors, PricewaterhouseCoopers LLP, and they have issued their report thereon.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee comprised of three Directors, none of whom are officers or employees of the Company. The Committee meets from time to time with management and the Company's auditors to review the financial statements and matters relating to the audit. The Company's auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders.

I.K. BARBER
Chairman and Chief Executive Officer

R.D. Price
Senior Vice-President, Chief Financial Officer and Secretary

Vancouver, BC
February 10, 2000

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 1999 AND 1998 (IN THOUSANDS OF DOLLARS)	1999	1998
ASSETS		
Current assets		
Cash and term deposits	$ 117,408	$ -
Accounts receivable	66,484	70,763
Inventories (note 4)	158,885	214,624
Prepaid expenses	8,646	16,714
	351,423	302,101
Investments and other assets (note 5)	26,304	26,755
Property, plant and equipment (note 6)	400,135	571,733
Deferred charges (note 7)	10,762	6,351
	$ 788,624	$ 906,940
LIABILITIES		
Current liabilities		
Bank indebtedness	$ -	$ 57,768
Accounts payable and accrued liabilities	131,424	141,529
Income taxes payable	2,066	-
Current portion of long-term debt (note 9)	1,825	506,522
	135,315	705,819
Deferred credit (note 7)	10,583	-
Reforestation obligation (note 8)	6,697	10,257
Long-term debt (note 9)	348,310	65,826
Deferred income taxes	79,616	22,732
	580,521	804,634
SHAREHOLDERS' EQUITY		
Capital stock (note 10)	184,917	184,669
Retained earnings (deficit)	23,186	(82,363)
	208,103	102,306
	$ 788,624	$ 906,940

Commitments and contingencies (note 11)

Approved by the Directors

I.K. Barber / Director

R.D. Price / Director

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998 (IN THOUSANDS OF DOLLARS)	1999	1998
Retained earnings (deficit) - Beginning of year	$ (82,363)	$ 75,476
Net earnings (loss) for the year	108,417	(157,815)
	26,054	(82,339)
Dividends	(2,868)	-
Share issue expenses	-	(24)
Retained earnings (deficit) - End of year	$ 23,186	$ (82,363)

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998 (IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	1999	1998
Sales	$ 1,085,813	$ 936,232
Costs and expenses		
Cost of products sold	774,479	819,903
Depreciation and amortization	56,171	69,766
Selling and administration	24,584	32,710
	855,234	922,379
Earnings from operations	230,579	13,853
Interest expense (income)		
Short-term debt	3,903	4,010
Short-term investments	(5,136)	(1,775)
Long-term debt	46,733	62,327
	45,500	64,562
Earnings (loss) before unusual items	185,079	(50,709)
Unusual items (note 3)	(1,344)	(182,590)
Earnings (loss) before income taxes	183,735	(233,299)
Income tax expense (recovery) (note 13)		
Current	3,946	1,050
Deferred	71,472	(75,127)
	75,418	(74,077)
Earnings (loss) before equity in earnings (loss) of affiliates and non-controlling interest	108,317	(159,222)
Equity in earnings (loss) of affiliates	100	(326)
Non-controlling interest	–	1,733
Net earnings (loss) for the year	$ 108,417	$ (157,815)
Net earnings (loss) per common share before unusual items	$ 2.89	$ (0.86)
Net earnings (loss) per common share		
Basic	$ 2.84	$ (4.14)
Fully diluted	$ 2.72	$ –

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998 (IN THOUSANDS OF DOLLARS)	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings (loss) for the year	$ 108,417	$ (157,815)
Items not affecting cash		
Depreciation and amortization	56,171	69,766
Amortization of deferred foreign exchange (gain) loss	(87)	6,381
Unusual items (note 3)	1,344	182,590
Reforestation expense	15,246	15,934
Deferred income taxes	71,472	(75,127)
Other	(136)	(1,082)
	252,427	40,647
Reforestation expenditures	(15,528)	(21,806)
Change in non-cash working capital items (note 15)	36,600	81,364
	273,499	100,205
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(37,792)	(23,157)
Proceeds from disposal of property, plant and equipment	286	201
Proceeds from sale of investment in Finlay Forest Industries Inc. (note 2)	80,000	–
Investments and other assets - net	(10,420)	1,554
	32,074	(21,402)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in long-term debt	–	37
Repayment of long-term debt	(133,847)	(25,155)
Decrease in short-term borrowings	(51,698)	(54,939)
Issue of common shares	248	106
Share issue expenses	–	(24)
Advances from non-controlling interest	–	1,172
Dividends	(2,868)	–
	(188,165)	(78,803)
Increase in cash and cash equivalents	117,408	–
Cash and cash equivalents - Beginning of year	–	–
Cash and cash equivalents - End of year	$ 117,408	$ –
Interest paid	$ 54,400	$ 62,300
Income taxes paid	$ 1,100	$ 3,700

(figures in tables are in thousands of dollars, except where indicated)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the accounts of the Company and its subsidiaries:

Tackama Forest Products Ltd. (Tackama)	100%
Plateau Forest Products Ltd. (Plateau)	100%

Until December 31, 1998, the Company consolidated and recorded the 20% non-controlling interest in the Fibreco Pulp Joint Venture (Fibreco). Subsequent to the acquisition (note 2), 100% of Fibreco is included as a Division of the Company.

INVESTMENTS

Investments in Fibreco Export Inc. (Export) and other investments are accounted for using the equity method.

Prior to the disposal (note 2), the Company's 49.9% interest in Finlay Forest Industries Inc. (Finlay) was accounted for using the proportionate consolidation method.

INVENTORIES

Log, lumber, panel products, and pulp and paper inventories are valued at the lower of average cost and net realizable value.

Processing materials and supplies are valued at the lower of average cost and replacement cost.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost net of investment tax credits less accumulated depreciation and amortization including the amount of any write-downs. Investment tax credits are recorded when there is reasonable assurance that the credits will be realized. Cost includes capitalized interest and preproduction and start-up costs for major new construction projects.

Manufacturing and production assets are depreciated using the unit-of-production method based on the estimated useful lives of the assets at normal production levels. Depreciation commences upon achievement of commercial production.

The cost of constructing logging roads is amortized on the basis of the volume of timber removed from each logging area.

Timber tenures are recorded at cost and are amortized on a straight-line basis over 15 to 40 years.

Non-manufacturing assets and preproduction and start-up costs are depreciated on a straight-line basis.

Estimated useful lives are as follows:

Buildings	
Pulp and paper	20 to 30 years
Wood products	10 to 20 years
Manufacturing machinery and equipment	
Pulp and paper	20 to 30 years
Wood products	10 to 20 years
Mobile equipment and other	5 to 10 years
Preproduction and start-up costs	5 years

REFORESTATION OBLIGATION

The Company harvests timber under various licences. Future reforestation and silviculture obligations are accrued and charged to earnings on the basis of timber removed from each area. Any differences between the amounts accrued and actual expenditures for reforestation are recorded in the period the costs are incurred.

PENSION PLANS

Pension costs and obligations for the Company's defined benefit pension plans are determined using actuarial estimates. Pension expense includes current service costs and the amortization of past service costs, pension surpluses and deficiencies, experience gains or losses and the effects of changes in plan assumptions. The cumulative difference between amounts expensed and funding contributions has been included in current liabilities on the balance sheet. Pension costs under defined contribution plans are expensed when contributions are made.

FOREIGN CURRENCIES

Accounts receivable in United States dollars covered by forward exchange contracts are translated to Canadian dollars at the contract rates. All monetary assets and liabilities in United States dollars, other than Finlay debt (now extinguished), are translated to Canadian dollars at the exchange rate in effect at the balance sheet date. Revenue and expense items are translated at the exchange rates in effect on the transaction dates. Realized gains and losses on derivative hedging transactions are recognized in revenue at the time of recording the related sales. Exchange gains and losses are included in earnings except for gains and losses arising on the translation of long-term debt, which are deferred and amortized over the life of the debt or reflected in earnings on settlement of the debt.

(figures in tables are in thousands of dollars, except where indicated)

INCOME TAXES

Income taxes are recorded using the deferral method of accounting. Deferred income taxes result from differences in the timing of income and expense recognition for accounting and tax purposes.

STOCK-BASED COMPENSATION PLANS

The Company has stock-based compensation plans, which are described in note 10. No compensation expense is recognized for these plans when stock or stock options are issued to employees or directors. Consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments with maturity of three months or less.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of reforestation, road deactivation and environmental obligations, impairment of assets, and rates for depreciation, depletion and amortization. Actual results could differ from those estimates.

2. DIVESTITURE AND ACQUISITION

1999

On August 4, 1999, the Company completed the sale of its 49.9% interest in Finlay to its joint venture partner, Donohue Inc., and recognized a loss on the sale of $11,009,000 (note 3). These consolidated financial statements include the results from operations of Finlay to the date of disposal. The Company's proportionate share of Finlay's balance sheet prior to the sale was:

	August 4, 1999	December 31, 1998
Net current assets - less current portion of debt	$ 18,430	$ 13,272
Non-current assets	154,361	161,502
Senior notes and term loan - including current portion	(62,738)	(64,140)
Other non-current liabilities	(19,044)	(18,520)
Equity	$ 91,009	$ 92,114
Proceeds on sale:		
Cash	$ 80,000	

The Company's proportionate share of the operating results and cash flows of Finlay prior to the sale was:

	August 4, 1999	December 31, 1998
Sales	$ 83,354	$ 133,571
Expenses	82,728	134,371
Net earnings (loss)	$ 626	$ (800)
Cash flows from (used for)		
Operating activities	$ 9,953	$ 17,774
Financing activities	$ (9,100)	$ (9,341)
Investing activities	$ (853)	$ (8,433)

During the period, the Company had business transactions with Finlay. All transactions were at market prices and on normal business terms.

(figures in tables are in thousands of dollars, except where indicated)

1998

On December 31, 1998, the Company acquired the 20% non-controlling interest of Fibreco, which owns and operates a pulp mill near Taylor, British Columbia, in exchange for a 7.9% interest in the Company's investment in Fibreco Export Inc. The 1998 consolidated financial statements include the operations of Fibreco and the corresponding non-controlling interest for the entire year.

Net assets acquired	
Non-controlling interest	$ 34,551
Property, plant and equipment	(32,616)
Consideration - investment in Export	$ 1,935

3 UNUSUAL ITEMS

	1999	1998
Loss on sale of investment in Finlay (note 2)	$ 11,009	$ -
Foreign exchange gain on US $ debt (a)	(10,299)	-
Write-off of deferred charges (a)	634	49,090
Asset write-downs (b)	-	133,500
	$ 1,344	$ 182,590

a) *DEFERRED CHARGES AND FOREIGN EXCHANGE GAINS AND LOSSES*

As discussed in note 9, as at December 31, 1998, the Company was not in compliance with certain covenants in the senior notes payable and bank term loan agreements, which resulted in the classification of the debt as current liabilities. Accordingly, the related deferred financing costs of $2,127,000 and deferred exchange loss of $46,963,000 were written off. In addition, during the period of debt renegotiation, all foreign exchange gains and losses realized on the debt (net gain - $10,299,000) were recorded in earnings. Foreign exchange gains arising subsequent to the debt renegotiation are deferred over the life of the debt (note 7).

b) *ASSET WRITE-DOWNS*

During the last quarter of 1998, the Company undertook an asset impairment review of its pulp mill at Taylor, B.C. and its sawmill and logging operations at Valemount, B.C. The Company had continuing losses from these operations and concluded that it would not fully recover its investment in the related capital assets. As a result, on December 31, 1998, the Company wrote off the carrying value of the Fibreco pulp mill of $125.2 million and reduced the carrying value of its Valemount sawmill and logging assets by $8.3 million.

4 INVENTORIES

	1999	1998
Logs	$ 68,708	$ 89,353
Lumber	55,912	81,097
Pulp and paper	8,740	14,123
Panel products	4,725	2,876
Processing materials and supplies	20,800	27,175
	$ 158,885	$ 214,624

(figures in tables are in thousands of dollars, except where indicated)

5 INVESTMENTS AND OTHER ASSETS

	1999	1998
Fibreco Export Inc. (22% interest)	$ 472	$ 468
Timber deposits	341	796
Other	1,472	1,472
Investment tax credits	24,019	24,019
	$ 26,304	$ 26,755

The Company has business transactions with its equity investees. All transactions are at market prices and on normal business terms.

6 PROPERTY, PLANT AND EQUIPMENT

	1999		
	Cost	Accumulated depreciation and amortization	Net
Land	$ 7,518	$ -	$ 7,518
Pulp and paper mills	181,845	181,448	397
Sawmills and panel operations	507,012	236,278	270,734
Logging roads	90,251	54,529	35,722
Timber tenures	105,232	19,468	85,764
	$ 891,858	$ 491,723	$ 400,135

	1998		
	Cost	Accumulated depreciation and amortization	Net
Land	$ 8,492	$ -	$ 8,492
Pulp and paper mills (note 3(b))	314,318	203,192	111,126
Sawmills and panel operations (note 3(b))	526,677	217,361	309,316
Logging roads	105,657	58,137	47,520
Timber tenures	111,239	17,937	93,302
Construction-in-progress	1,977	-	1,977
	$ 1,068,360	$ 496,627	$ 571,733

7 DEFERRED CHARGES AND CREDIT

	1999	1998
Deferred charges		
Deferred financing fees	$ 4,261	$ -
Other	6,501	6,351
	$ 10,762	$ 6,351
Deferred credit		
Deferred foreign exchange gain	$ 10,583	$ -

(figures in tables are in thousands of dollars, except where indicated)

8 REFORESTATION OBLIGATION

The Company's reforestation obligation and expense are:

		1999	1998
Reforestation obligation - Beginning of year		$ 24,639	$ 30,511
Expense for the year		15,246	15,934
		39,885	46,445
Less:	Paid during the year	15,528	21,806
	Sale of Finlay	8,141	-
Reforestation obligation - End of year		$ 16,216	$ 24,639
Current - included in accrued liabilities		$ 9,519	$ 14,382
Long-term		6,697	10,257
		$ 16,216	$ 24,639

9 LONG-TERM DEBT

		1999	1998
Senior notes payable (1999 - US $240 million; 1998 - US $290 million)		$ 346,392	$ 444,657
Bank term loan (1998 - US $37.5 million)		-	57,499
Limited recourse debt - Finlay		-	64,301
Capital lease obligations (note 11) and other		3,743	5,891
		350,135	572,348
Less:	Current portion	1,825	506,522
		$ 348,310	$ 65,826

The Canadian equivalent of the senior notes payable and bank term loan has been calculated using the year-end spot exchange rate.

COMPANY DEBT

The notes and bank term loan agreements contain covenants requiring the maintenance of certain financial ratios and place limitations on the incurrence of additional debt and on the application of the proceeds from disposition of assets. During the period from July 1998 to August 1999, the Company was not in compliance with certain covenants in the above agreements, which gave the lenders the right to accelerate payment terms. Accordingly, as at December 31, 1998 the debt was classified as current (note 3(a)).

In August 1999, the Company successfully renegotiated its current and long-term debt facilities with its lenders, and the bank term loan of US $37.5 million and notes payable of US $50.0 million were repaid.

The terms of the new agreements provide for:

a) a new revolving operating credit facility of $120 million, with interest at LIBOR plus 1-3/8% for a minimum of three years

(figures in tables are in thousands of dollars, except where indicated)

b) senior notes payable (US $240 million), issued in series with varying maturities and interest rates as follows:

Series	Maturity date	Interest rate	Amount
B	October 24, 2003	8.82%	US$ 50,000
C	October 24, 2005	8.99	60,000
D	October 24, 2006	8.99	30,000
E	October 24, 2007	9.13	100,000
			US$ 240,000

The interest rate on each series of notes reduces by 0.50% at such time that the Company achieves certain financial ratios for six consecutive quarters. These financial statement ratios have been met at the end of June, September and December 1999, and it is expected that the interest rate reductions will be effective October 1, 2000.

c) Substantially all of the Company's assets have been pledged as security for the new debt facilities. The Company has the option of having the security over the assets released by its lenders when the financial ratios referred to in (b) are achieved.

d) Scheduled annual repayments of long-term and limited recourse debt for the next five years are:

	Amount
2000	$ 1,825
2001	1,918
2002	-
2003	72,165
2004	-

FINLAY DEBT

Financing for Finlay was on a limited recourse basis to the Company.

The Finlay debt bore interest at 8.74% and was secured under a trust deed on a pari-passu basis with its bank credit facilities providing a first fixed and specific charge on all of its fixed assets and a first floating charge on its remaining assets. The notes were also secured by guarantees on a several basis of US $7.5 million from each of the Company and Donohue Inc. During 1999, the Company's guarantee was rescinded concurrently with the Company's sale of its investment in Finlay (note 2).

10 CAPITAL STOCK

	1999	1998
Authorized		
10,000,000 preferred shares without par value		
80,000,000 common shares without par value		
Issued		
38,245,143 common shares (1998 - 38,190,205)	**$ 184,917**	$ 184,669

SHARE CAPITAL TRANSACTIONS

During 1999, 54,938 common shares (1998 - 31,597) were issued under the Company's stock option and employee share purchase plans for $248,000 cash (1998 - $106,000 cash).

STOCK OPTION PLANS

The Company has two stock option plans. Under the Employee Stock Option Plan, the Company may grant options to its employees for up to 4,086,300 shares of common stock. Under the Directors Stock Option Plan, the Company may grant options to directors for up to 300,000 shares of common stock. The exercise price per share under these plans is to be determined by the board of directors. The vesting of the options occurs at a rate of 20% per annum for options granted in 1997 and prior and 33% per annum for options granted in 1998 and subsequent.

(figures in tables are in thousands of dollars, except where indicated)

A summary of the status of the Company's two stock option plans as of December 31, 1999 and 1998, and changes during the years ending on those dates is presented below:

	1999		1998	
Options	**Shares**	**Weighted average exercise price**	Shares	Weighted average exercise price
Outstanding - Beginning of year	**1,781,550**	**$ 7.80**	1,356,970	$ 11.12
Granted	**100,000**	**4.65**	865,850	3.65
Exercised	**(54,938)**	**4.52**	-	-
Expired/forfeited	**(224,100)**	**(13.05)**	(441,270)	(9.85)
Outstanding - End of year	**1,602,512**	**6.99**	1,781,550	7.80
Options exercisable at year end	**1,088,257**		900,954	

The following table summarizes information about stock options outstanding at December 31, 1999:

Exercise price	Number outstanding at December 31, 1999	Weighted average remaining contractual life (years)	Number exercisable at December 31, 1999
$ 3.65	**838,712**	**9.0**	**550,124**
4.65	**77,500**	**9.1**	**10,833**
7.65	**273,600**	**3.0**	**158,600**
12.50	**203,200**	**0.5**	**203,200**
15.00	**209,500**	**2.0**	**165,500**
	1,602,512		**1,088,257**

SHARE PURCHASE PLAN

During 1998, the Company established a share purchase plan available to all employees. Purchases of common shares under this plan will either occur on the open market or from treasury stock. Under the plan, the Company will discount stock issued from treasury by 5% of the market price or contribute 5% to any purchases of stock on the open market.

11 COMMITMENTS AND CONTINGENCIES

a) The present value of future minimum lease payments under capital leases of the Company are:

	Capital leases
2000	$ 1,825
2001	1,918
Obligations under capital leases	$ 3,743

b) The Company has guaranteed the bank indebtedness of one of its investees to a maximum aggregate amount of $0.5 million (1998 - $0.8 million).

12 PENSION PLANS

The Company maintains defined contribution plans, group registered retirement savings plans, and a defined benefit pension plan for its salaried employees.

The actuarial calculation of the present value of accrued pension benefits and the market value of pension fund assets to provide the benefits under the defined benefit pension plan are as follows:

	1999	1998
Accrued pension benefits	**$ 19,757**	$ 21,500
Pension fund assets	**$ 19,350**	$ 22,071

Pension expense of $1.3 million (1998 - $1.3 million) includes the amortization of experience gains and losses.

The 1998 accrued pension benefits and pension assets includes $3.0 million and $3.5 million respectively relating to the Company's proportionate interest in Finlay (note 2).

(figures in tables are in thousands of dollars, except where indicated)

13 INCOME TAXES

The adjusted earnings for purposes of providing for income taxes are:

	1999	1998
Earnings (loss) before income taxes	$ 183,735	$ (233,299)
Non-deductible interest	755	225
Non-deductible portion of unusual items	1,050	37,425
Non-deductible depreciation and amortization	2,059	7,437
Adjusted earnings (loss)	$ 187,599	$ (188,212)

A reconciliation of the statutory tax rate to the effective tax rate on adjusted earnings (loss) is as follows:

	1999		1998	
Federal income tax (recovery) - net	$ 41,459	22.1%	$ (41,595)	(22.1)%
Provincial income tax (recovery) - net	30,954	16.5	(31,055)	(16.5)
	72,413	38.6	(72,650)	(38.6)
Large corporations tax	1,080	0.6	1,860	1.0
Rate differential on deferred income tax draw down	-	-	(1,244)	(0.7)
Other items	1,925	1.0	(2,043)	(1.1)
	$ 75,418	40.2%	$ (74,077)	(39.4)%

14 SEGMENTED INFORMATION

The Company's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies.

The three reportable segments are lumber, panel products, and pulp and paper. The lumber segment manufactures dimension lumber in varying grades and species for the construction industry; the panel product segment manufactures plywood and orientated strand board to serve the construction industry; and the pulp and paper segment supplies a range of products including CTMP for paper manufacturers and specialty paper and newsprint for the printing industry.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Interest expense and income are allocated based on capitalization and the working capital position of the segment. The Company evaluates performance based on profit or loss from operations before unusual items.

1999	Lumber	Panel	Pulp and paper	Non-segment	Total
External sales	$ 799,397	$ 186,956	$ 99,460	$ -	$ 1,085,813
Depreciation and amortization	$ 41,974	$ 10,167	$ 4,030	$ -	$ 56,171
Earnings (loss) from operations	$ 156,390	$ 71,801	$ 7,718	$ (5,330)	$ 230,579
Interest income	$ (4,274)	$ (862)	$ -	$ -	$ (5,136)
Interest expense	$ 12,954	$ 12,040	$ 13,467	$ 12,175	$ 50,636
Earnings (loss) before unusual items	$ 147,710	$ 60,623	$ (5,749)	$ (17,505)	$ 185,079
Total assets	$ 564,300	$ 176,999	$ 38,076	$ 9,249	$ 788,624
Capital expenditures	$ 26,678	$ 10,457	$ 657	$ -	$ 37,792

(figures in tables are in thousands of dollars, except where indicated)

1998	Lumber	Panel	Pulp and paper	Non-segment	Total
External sales	$ 681,813	$ 129,279	$ 125,140	$ -	$ 936,232
Depreciation and amortization	$ 47,455	$ 9,040	$ 13,271	$ -	$ 69,766
Earnings (loss) from operations	$ 2,224	$ 18,729	$ (1,132)	$ (5,968)	$ 13,853
Interest income	$ (1,477)	$ (298)	$ -	$ -	$ (1,775)
Interest expense	$ 28,338	$ 12,252	$ 17,077	$ 8,670	$ 66,337
Earnings (loss) before unusual items	$ (24,637)	$ 6,775	$ (18,209)	$ (14,638)	$ (50,709)
Total assets	$ 573,948	$ 154,986	$ 162,931	$ 15,075	$ 906,940
Capital expenditures	$ 20,083	$ 483	$ 1,384	$ 1,207	$ 23,157

NON-SEGMENT DETAIL

	1999	1998
Earnings (loss) before unusual items		
Interest expense	**$ 12,175**	$ 8,670
B.C. corporation capital tax	**2,100**	2,068
Other	**3,230**	3,900
	$ (17,505)	$ (14,638)
Total assets		
Deferred charges	**$ 4,261**	$ 6,351
Other	**4,988**	8,724
	$ 9,249	$ 15,075

GEOGRAPHIC SEGMENTATION

All of the Company's operations, employees and assets are located in British Columbia.

SALES DISTRIBUTION

Sales by major market are:

	1999	1998
United States	**$ 653,718**	$ 601,690
Other foreign countries	**135,649**	102,390
Total export sales	**789,367**	704,080
Canada	**296,446**	232,152
	$1,085,813	$ 936,232

MAJOR CUSTOMERS

The Company has no customers that purchased more than 10% of total sales.

15 CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	1999	1998
Accounts receivable	**$ (11,883)**	$ 43,529
Inventories	**30,348**	66,819
Prepaid expenses	**5,840**	(2,731)
Income taxes payable	**2,066**	(1,617)
Accounts payable and accrued liabilities, excluding current portion of reforestation obligation	**10,229**	(24,636)
	$ 36,600	$ 81,364

16 FINANCIAL INSTRUMENTS

FOREIGN EXCHANGE RISK MANAGEMENT

A significant portion of the Company's anticipated revenues originate from sales in US dollars and are affected by the Canadian/US dollar exchange rate. The Company used derivative financial instruments and borrows a portion of its funds in US dollars to reduce its foreign exchange exposure to fluctuations in the value of the US dollar. The Company enters into financial instruments for normal operating purposes.

The derivatives allow the Company to receive fixed amounts of Canadian dollars within a specified range of rates. The notional amounts of derivative financial instruments represent the volume of outstanding transactions as at the reporting date. Realized gains and losses on hedging transactions are recognized in revenue at the time the related US dollar sales are recorded.

(figures in tables are in thousands of dollars, except where indicated)

a) Options in US dollars

	1999				1998			
	Call options purchased		Put options sold		Call options purchased		Put options sold	
Maturity	Notional amount	Average rate	Notional amount	Average rate	Notional amount	Average rate	Notional amount	Average rate
1999	$ -	-	$ -	-	$ 32,825	1.4023	$ 127,950	1.4419

The call options were exercisable at the Company's option and establish a floor on the exchange rate for US dollars, whereas the put options were exercisable at the counterpart's option and fix the maximum rate the Company will realize.

b) Forward exchange contracts in US dollars

	1999		1998	
Maturity	Notional amount	Average rate	Notional amount	Average rate
1999	$ -	-	$ 74,625	1.4394
2000	-	-	2,125	1.4915

FAIR VALUES

The carrying value and fair value of the Company's financial instruments are as follows:

	1999		1998	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Long-term debt	$ 350,135	$ 355,549	$ 572,348	$ 583,690

As at December 31, 1999, the Company had no foreign exchange contracts outstanding (1998 - the unrecognized loss on foreign exchange contracts amounted to $18.9 million).

The carrying values of accounts receivable, investments, bank indebtedness, income taxes recoverable and payable, and accounts payable and accrued liabilities approximate their fair values. The fair value of long-term debt is estimated using discounted cash flow analysis utilizing incremental borrowing rates based on the Company's current credit position. The fair value of derivative financial instruments is estimated by obtaining quotations for similar instruments from the Company's counterparties.

17 YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers or other third parties, have been fully resolved.

OFFICERS AND SENIOR MANAGEMENT

Irving K. Barber
Chairman and Chief Executive Officer

James A. Shepherd
President and Chief Operating Officer

Micheal G. Madrigga
Senior Vice-President, Corporate Development

Ronald D. Price
Senior Vice-President,
Chief Financial Officer and Secretary

James I. Barber
Vice-President and Regional Manager - Operations

Daniel H. Breck
Vice-President, Fibreco Pulp Division

Donald B. Clutterham
Vice-President and Regional Manager - Operations

Terry D. Hodgins
Vice-President and Financial Officer

Julius Juhasz
Vice-President, Forest Resources

E. Terrence Upgaard
Vice-President, Sales and Marketing

Roger V. Ennis
Manager, Forest Renewal

Keith R. Leech
Manager, Human Resources

Steven T. Pelton
Divisional Manager, Vavenby Division

Edward J. Anthony
Divisional Manager, Plateau Division

Marcel E. Favron
Divisional Manager, Valemount Division

Fred Fominoff
Divisional Manager, Fibreco Pulp Division

Keith McGregor
Operations Manager, Mackenzie Operations

Ken Petteplace
Divisional Manager, Quesnel Division

Scott Hall
Divisional Manager, Uneeda Wood Products Division

Cameron D. Milne
Divisional Manager, Slocan Division

Kerry Staples
Divisional Manager, Radium Division

Derek Stewart
Divisional Manager, PolarBoard Division

BOARD OF DIRECTORS

Irving K. Barber
Chairman and Chief Executive Officer,
Slocan Forest Products Ltd.

Kenneth P. Benson
Retired

Stephen T. Bellringer
President and Chief Executive Officer,
Canadian Hotel Income Properties

George A. Edgson
Retired

Brandt C. Louie
President, H.Y. Louie Co. Limited

Ronald D. Price
Senior Vice-President, Chief Financial Officer & Secretary,
Slocan Forest Products Ltd.

James A. Shepherd
President and Chief Operating Officer,
Slocan Forest Products Ltd.

John M. Tennant
President of Ferncliff Estates Ltd.

E. Terrence Upgaard
Vice-President, Sales and Marketing,
Slocan Forest Products Ltd.

John Weatherall
Chairman Emeritus,
T.D. Asset Management Inc.

STOCK EXCHANGE LISTING

Stock Exchange - Toronto
Trading symbol - SFF

SOLICITORS

Lawson Lundell Lawson & McIntosh
925 West Georgia Street
Vancouver, BC V6C 3L2

REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company
Principal Offices:
Vancouver and Toronto

AUDITORS

PricewaterhouseCoopers LLP
1111 West Hastings Street
Vancouver, BC V6E 3R2

OFFICES

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Mackenzie, BC V0J 2C0

Plateau Division
P.O. Box 2000
Vanderhoof, BC V0J 3A0

PolarBoard Division
Mile 294, Alaska Highway
Fort Nelson, BC V0C 1R0

Quesnel Division
P.O. Box 8000
Quesnel, BC V2J 3J5

Radium Division
P.O. Box 39
Radium Hot Springs, BC V0A 1M0

Slocan Division
Slocan, BC V0G 2C0

Tackama Division
R.R. #1
Fort Nelson, BC V0C 1R0

Valemount Division
P.O. Box 189
Valemount, BC V0E 2Z0

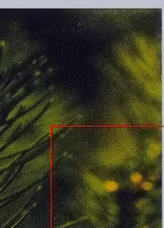
Vavenby Division
P.O. Box 39
Vavenby, BC V0E 3A0

Uneeda Wood Products Division
6550 Unsworth Rd.
Chilliwack, BC V2R 4P4

Fibreco Pulp Division
P.O. Box 330
Taylor, BC V0C 2K0

ANNUAL MEETING

The Twenty-second Annual General Meeting of the Company will be held in the Arbutus Room of the Four Seasons Hotel, 791 West Georgia Street, Vancouver, BC at 2:00 P.M. on the 5th of May, 2000.



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